

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

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended **January 1, 2022**

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**  
(State or other jurisdiction of  
incorporation or organization)

**13-3912933**  
(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

**Securities registered pursuant to section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  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  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 the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant’s most recently completed second fiscal quarter, based upon the closing sale price of the registrant’s common stock on July 3, 2021 as reported on the New York Stock Exchange was \$3,415,209,703. For purposes of the foregoing calculation only, which is required by Form 10-K, the Registrant has included in the shares owned by affiliates those shares owned by directors and executive officers of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose. As of February 18, 2022, there were 40,910,501 shares of the registrant’s common stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the Annual Meeting of shareholders of Carter’s, Inc., scheduled to be held on May 18, 2022, will be incorporated by reference in Part III of this Form 10-K. Carter’s, Inc. intends to file such proxy statement with the Securities and Exchange Commission not later than 120 days after its fiscal year ended January 1, 2022.

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This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the federal securities laws relating to our future performance. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” and similar terms. These forward-looking statements are based upon our current expectations and assumptions and are subject to various risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements including, but not limited to, those discussed in the subsection entitled “Risk Factors” under Part I, Item 1A of this Annual Report on Form 10-K. Actual results, events, and performance may differ significantly from the results discussed in the forward-looking statements. Readers of this Annual Report on Form 10-K are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except for any ongoing obligations to disclose material information as required by federal securities laws, the Company does not have any intention or obligation to update forward-looking statements after the filing of this Annual Report on Form 10-K. The inclusion of any statement in this Annual Report on Form 10-K does not constitute an admission by the Company or any other person that the events or circumstances described in such statement are material.

## PART I

Unless the context indicates otherwise, in this filing on Form 10-K, “Carter’s,” the “Company,” “we,” “us,” “its,” and “our” refers to Carter’s, Inc. and its wholly owned subsidiaries.

Our market share data is based on information provided by the NPD Group, Inc. (“NPD”). NPD data is based upon Consumer Panel Track<sup>SM</sup> (consumer-reported sales) calibrated with selected retailers’ point of sale data for children’s apparel in the United States (“U.S.”) and represents the twelve-month period through the end of December 2021.

Unless otherwise indicated, references to market share in this Annual Report on Form 10-K are expressed as a percentage of total retail sales of the stated market. Some NPD market share data is presented based on age segments. The baby and young children’s apparel market in which we compete includes apparel products for ages zero to 10, and is divided into the zero to two-year-old baby market, the three- to four-year-old toddler market, and the five- to 10-year-old kids market. Note that Carter’s defines its product offerings by sizes: baby (sizes newborn to 24 months), toddlers (sizes 2T to 5T), and kids (sizes 4-14). In addition, other NPD market share data is presented based on NPD’s definition of the baby and playclothes categories, which are different from Carter’s definitions of these categories.

Certain NPD data cited in prior Annual Reports on Form 10-K were based on an alternate methodology no longer employed by NPD and are not comparable to the current year presentation.

Our trademarks and copyrights that are referred to in this Annual Report on Form 10-K, including *Carter’s*, *OshKosh*, *OshKosh B’gosh*, *Baby B’gosh*, *Skip Hop*, *Child of Mine*, *Just One You*, *Simple Joys*, *Little Collections*, *little planet*, *Carter’s My First Love*, *Carter’s KID*, *Rewarding Moments*, and *Count on Carter’s*, 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.

The Company’s fiscal year ends on the Saturday in December or January nearest December 31. Every five or six years, our fiscal year includes an additional 53<sup>rd</sup> week of results. Fiscal 2021, which ended on January 1, 2022, contained 52 weeks. Fiscal 2020, which ended on January 2, 2021, contained 53 weeks. Fiscal 2019, which ended on December 28, 2019, contained 52 weeks.

## ITEM 1. BUSINESS

### Overview

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

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

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

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

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

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

Our mission is to serve the needs of all families with young children, with a vision to be the world's favorite brands in young children's apparel and related products. We believe our brands provide a complementary product offering and aesthetic, are each uniquely positioned in the marketplace, and offer strong value to families with young children. The baby and young children's apparel market ages zero to 10 in the U.S. is approximately \$31 billion as of December 2021. In this market, our *Carter's* brands, including our exclusive brands, hold the #1 position with approximately 10% market share and our *OshKosh* brand has approximately 1% market share as of December 2021.

Our multi-channel, global business model, which includes retail stores, eCommerce, and wholesale sales channels, as well as retail omni-channel capabilities in the United States and Canada, enables us to reach a broad range of consumers around the world. At the end of fiscal 2021, our channels included 980 retail stores, approximately 18,800 wholesale locations, and eCommerce websites in North America, as well as our international wholesale accounts and licensees who operate in over 90 countries.

During fiscal 2020 and fiscal 2021, the global pandemic, caused by the spread of the novel strain of coronavirus (including variants, "COVID-19"), negatively affected the global economy, disrupted global supply chains, and created significant disruption of the financial and retail markets, including a disruption in consumer demand for baby and children's clothing and accessories during fiscal 2020. For more information on the effects of the pandemic on the Company, and our response to the pandemic, see "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our three business segments are: U.S. Retail, U.S. Wholesale, and International. These segments are our operating and reporting segments. Our U.S. Retail segment consists of revenue primarily from sales of products in the United States through our retail stores and eCommerce websites. Similarly, our U.S. Wholesale segment consists of revenue primarily from sales in the United States of products to our wholesale partners. Finally, our International segment consists of revenue primarily from sales of products outside the United States, largely through our retail stores and eCommerce websites in Canada and Mexico, and sales to our international wholesale customers and licensees. Additional financial and geographical information about our segments is contained in Item 8 "Financial Statements and Supplementary Data" and under Note 14, *Segment Information*, to the consolidated financial statements.

We have extensive experience in the young children's apparel and accessories market and focus on delivering products that satisfy our consumers' needs. Our long-term growth strategy focuses on:

- providing the best value and experience in apparel and related products for young children;
- extending the reach of our brands; and
- improving profitability.

## **Our Brands**

### ***Carter's & OshKosh B'gosh***

Our *Carter's* and *OshKosh* product offerings include apparel and accessories for babies (sizes newborn to 24 months), toddlers (sizes 2T to 5T), and kids (sizes 4-14).

For our *Carter's* brand, our focus is on essential, high-volume apparel products for babies and young children, including bodysuits, pants, dresses, multi-piece knit sets, blankets, layette essentials, bibs, booties, sleep and play, rompers, and jumpers. We attribute our leading market position to our strong value proposition, brand strength, unique colors, distinctive prints, and commitment to quality, as well as our broad wholesale distribution channel that includes successful and long-standing relationships with leading global and national retailers. Our marketing programs are targeted toward first-time parents, experienced parents, and gift-givers. Our core baby product line, the largest component of our baby business, provides families with essential products and accessories, including value-focused multi-piece sets. We also have three exclusive *Carter's* brands: our *Child of Mine* brand, which we sell at Walmart, our *Just One You* brand, which we sell at Target, and our *Simple Joys* brand, which we sell on Amazon. In 2021, we launched our *little planet* brand, which focuses on organic fabrics and sustainable materials.

*Carter's* is the leading brand in the zero to 10-year-old market in the United States, with particular strength in the zero to two-year-old segment. As of December 2021, our multi-channel business model enabled our *Carter's* brands to maintain leading market share of approximately 10% in the zero to 10-year-old market, which represented nearly double the market share of the next largest brand. In addition, our *Carter's* brands maintained the leading market position with approximately 21% in the zero to two-year-old baby market, which represented nearly four times the market share of the next largest brand, and maintained its leading market position with approximately 11% in the three to four-year-old toddler market, which represented approximately 1.5 times the market share of the next largest brand. The slight decrease in market share compared to fiscal 2020 is primarily due to our strategic focus on growing operating profitability, which increased more than the sales growth in the overall market.

The focus of the *OshKosh* brand is high-quality playclothes, including denim apparel products with multiple wash treatments and coordinating garments, overalls, woven bottoms, knit tops, and bodysuits for everyday use. Our *OshKosh* brand is generally positioned towards an older age segment and at slightly higher average prices relative to the *Carter's* brand. We believe our *OshKosh* brand has significant brand name recognition, which consumers associate with high-quality, durable, and authentic playclothes for young children. As of December 2021, our *OshKosh* brand's market share was approximately 1% of the zero to 10-year-old apparel market in the United States.

For both our *Carter's* and *OshKosh* brands, we employ cross-functional product teams to focus on the development of the brands and products. The teams include members from merchandising, art, design, sourcing, product development, marketing and planning, and follow a disciplined approach to fabric usage, color selection, and assortment productivity. We believe this disciplined approach to product development, which includes consumer research, results in a compelling product offering to consumers, reduces our exposure to short-term trends, and supports efficient operations.

We believe that we continue to strengthen our brand image with the consumer by differentiating our products through fabric and material improvements, new artistic applications, new packaging and presentation strategies, and marketing. We also attempt to differentiate our products and presentation through in-store fixturing, branding, signage, photography, and advertising, both in our stores and on our websites, as well as with our major wholesale customers.

### ***Licensed Products***

We license our *Carter's*, *OshKosh*, *Child of Mine*, *Just One You*, *Simple Joys*, and *Carter's My First Love* brands to partners to expand our product offerings to include footwear, outerwear, accessories (such as hair accessories and jewelry), toys, paper goods, home décor, cribs and baby furniture, and bedding. These licensing partners develop and sell products through our multiple sales channels, while leveraging our brand strength, customer relationships, and designs. Licensed products provide our customers with a range of lifestyle products that complement and expand upon our baby and young children's apparel offerings. Our license agreements require strict adherence to our quality and compliance standards and provide for a multi-step

product approval process. We work in conjunction with our licensing partners in the development of their products to ensure that they fit within our brand vision of high-quality products at attractive prices to provide value to the consumer.

We also partner with other brand owners to further expand our product offerings, including apparel with collegiate and professional sport teams' logos.

### ***Skip Hop***

Under our *Skip Hop* brand, we design, source, and market products that are sold primarily to families with young children. Our *Skip Hop* brand is best known for its diaper bags, which we believe combine innovative functionality with attractive design. The *Skip Hop* brand offering also includes products for playtime, travel, mealtime, kid's bags, bath time, and home gear.

We believe *Skip Hop* is a global lifestyle brand. *Skip Hop's* core philosophy and positioning begins and ends with its brand promise -- "*Must-Haves \* Made Better.*" This reflects the brand's goal of creating innovative, smartly designed, and highly functional essentials for parents, babies, and toddlers. The *Skip Hop* team includes both an in-house design and a creative team, each of which is dedicated to meeting that goal. We carry *Skip Hop* brand products in our retail stores, and have made investments in in-store fixturing, branding, and signage packages, along with digital advertising, to further strengthen the position of the *Skip Hop* brand.

### **Our Sales Channels**

We sell our *Carter's*, *OshKosh*, and *Skip Hop* branded products through multiple channels, both in the United States and globally.

#### ***U.S. Retail***

Our U.S. Retail segment includes sales of our products through our U.S. retail stores and eCommerce sites, including through our omni-channel capabilities to allow our customers to buy on-line and pick-up in store (or curbside), buy-online and ship-to-store, and in-store buy on-line services.

Our U.S. retail stores are generally located in high-traffic strip shopping centers and malls in or near major cities or in outlet centers that are near densely-populated areas. We believe our brand strength and our product assortment have made our retail stores a destination for consumers seeking young children's apparel and accessories.

Each of our stores carries an assortment of *Carter's*, *OshKosh*, and/or *Skip Hop* branded products, as well as other products, depending on the store and location. As of the end of fiscal 2021, our stores averaged approximately 5,000 square feet per location, ranging from on average approximately 4,300 square feet for our formerly single-branded stores to approximately 7,400 square feet for our stores that consist of adjacent and connected *Carter's* and *OshKosh* stores. As of the end of fiscal 2021, in the United States we operated 751 stores.

We regularly assess potential new retail store locations and closures based on demographic factors, retail adjacencies, competitive factors, and population density as part of a rigorous real estate portfolio optimization process.

We also sell our products through our U.S. eCommerce websites at [www.carters.com](http://www.carters.com), [www.oshkoshbgosh.com](http://www.oshkoshbgosh.com), [www.oshkosh.com](http://www.oshkosh.com), and [www.skiphop.com](http://www.skiphop.com), and our mobile application.

We focus on the customer experience through store and eCommerce website design, visual aesthetics, clear product presentation, and experienced customer service. Our eCommerce websites also feature product recommendations and on-line-only offerings. We strive to create a seamless omni-channel experience between our retail stores and our eCommerce websites, as more fully described below under "Our Customer and Marketing Strategy."

#### ***U.S. Wholesale***

Our U.S. Wholesale segment includes sales of our products to our U.S. wholesale customers.

Our *Carter's* brand wholesale customers in the United States include major retailers, such as, in alphabetical order, buybuy BABY, Costco, Kohl's, and Macy's. Additionally, we sell our *Child of Mine* exclusive brand at Walmart, our *Just One You* exclusive brand at Target, and our *Simple Joys* exclusive brand on Amazon.

Our *OshKosh* brand wholesale customers in the United States include major retailers, such as, in alphabetical order, Amazon, buybuy BABY, and Target.

Our *Skip Hop* brand wholesale customers in the United States include major retailers, such as, in alphabetical order, Amazon, buybuy BABY, and Target.

We collaborate with our wholesale customers to provide a consistent and high-level of service, and to drive growth through eCommerce, replenishment, product mix, and brand presentation initiatives. We also have frequent meetings with the senior management of key accounts to align on strategic growth plans.

### **International**

Our International segment includes sales of our products through our retail stores and eCommerce sites in Canada and Mexico. As of the end of fiscal 2021, in Canada we operated 186 co-branded *Carter's* and *OshKosh* retail stores and an eCommerce site at [www.cartersoshkosh.ca](http://www.cartersoshkosh.ca), and in Mexico we operated 43 retail stores and an eCommerce site at [www.carter.com.mx](http://www.carter.com.mx).

Our International segment includes sales of our products to wholesale accounts outside of the United States, such as, in alphabetical order, Amazon, Costco, and Walmart.

In addition, we license our *Carter's* and *OshKosh* brands to international customers that sell our products through branded retail and online stores, as well as to wholesale customers, within their licensed territories. Our International segment includes sales of our products to these licensees, and royalty income based on sales made by certain licensees. As of the end of fiscal 2021, we had approximately 38 international licensees who operated in over 90 countries.

### **Our Customer and Marketing Strategy**

For all of our brands, our marketing is predominantly focused on driving brand preference and engagement with first-time parents, experienced parents, and gift-givers, including through strengthening and evolving our digital programs. Our omni-channel approach allows the customer to experience our brands as a seamless shopping experience in the channel of their choice. In fiscal 2019, we launched capabilities in the United States to allow our customers to buy on-line and pick-up in store, complementing our existing buy-on-line, ship-to-store and in-store buy on-line services. In fiscal 2020, we enhanced and expanded our omni-channel capabilities in the United States, including curbside pick-up at our retail stores and buy-on-line, deliver-from-store. In fiscal 2021, we expanded our omni-channel capabilities further by implementing omni-channel programs in our retail stores in Canada.

We operate our *Rewarding Moments* loyalty and rewards program in the United States to drive customer traffic, sales, and brand loyalty. This program is integrated across our U.S. retail stores and online businesses. During fiscal 2021, our U.S. retail sales were predominantly made to customers who are members of *Rewarding Moments*.

In fiscal 2019, we launched a new *Carter's* credit card program in the United States. The *Carter's* credit card complements and enhances our existing *Rewarding Moments* loyalty program and provides new benefits for our customers, including free shipping on every eCommerce order, double *Rewarding Moments* points, and exclusive cardholder-only events.

Our investments in marketing, our loyalty program, and new consumer-facing technologies are focused on acquiring new customers, developing stronger relationships with our existing customers, and extending their connections with our brands. Our goal is to have the most top-of-mind, preferred brands in the young children's apparel market and to connect with a diverse, digitally savvy customer.

### **Our Global Sourcing Network**

We do not own any raw materials or manufacturing facilities. We source all of our garments and other products from a global network of third-party suppliers, primarily located in Asia. We source the remainder of our products primarily through North America, Africa, and Central America. During fiscal 2021, approximately 74% of our product was sourced from Cambodia, Vietnam, Bangladesh, and China, and approximately 80% of the fabric that was used in the manufacture of our products was sourced from China, with the remainder primarily from Thailand and Taiwan.

Our sourcing operations are based in Hong Kong in order to facilitate better service and manage the volume of manufacturing in Asia. Our Hong Kong office acts as an agent for substantially all of our sourcing in Asia and monitors production at manufacturers' facilities to ensure quality control, compliance with our manufacturing specifications and social responsibility standards, as well as timely delivery of finished garments to our distribution facilities. We also have sourcing operations in Cambodia, Vietnam, China, and Bangladesh to help support these efforts.

Prior to placing production, and on a recurring basis, we conduct assessments of political, social, economic, trade, labor and intellectual property protection conditions in the countries in which we source our products, and we conduct assessments of our



manufacturers and supply chain, as discussed under “—Corporate Social Responsibility” below. In connection with the manufacture of our products, manufacturers purchase raw materials including fabric and other materials (such as linings, zippers, buttons, and trim) at our direction. We regularly inspect and supervise the manufacture of our products in order to maintain quality control, monitor compliance with our manufacturing specifications and social responsibility standards and to ensure timely delivery. We also inspect finished products at the manufacturing facilities.

We generally arrange for the production of products on a purchase order basis with completed products manufactured to our design specifications. We assume the risk of loss predominantly on a Freight-On-Board (F.O.B.) basis when goods are delivered to a shipper and are insured against losses arising during shipping.

As is customary, we have not entered into any long-term contractual arrangements with any contractor or manufacturer. We believe that the production capacity of foreign manufacturers with which we have developed, or are developing, a relationship is adequate to meet our production requirements for the foreseeable future. We believe that alternative foreign manufacturers are readily available.

We expect all of our suppliers shipping to the United States to adhere to the requirements of the U.S. Customs and Border Protection’s Customs-Trade Partnership Against Terrorism (“C-TPAT”) program, including standards relating to facility security, procedural security, personnel security, cargo security, and the overall protection of the supply chain. In the event a supplier does not comply with our C-TPAT requirements, or if we have determined that the supplier will be unable to correct a deficiency, we may move that supplier’s product through alternative supply chain channels or we may terminate our business relationship with the supplier.

### **Corporate Social Responsibility**

We have adopted a factory on-boarding program that allows us to assess each factory’s compliance with our social responsibility standards before we place orders for product with that factory, including factories utilized by companies that we may acquire. Additionally, we regularly assess the manufacturing facilities we use through periodic on-site facility inspections, including the use of independent auditors to supplement our internal staff. We use audit data and performance results to suggest improvements when necessary, and we integrate this information into our on-going sourcing decisions. Our vendor code of conduct, with which we require our factories to comply, outlines our standards for supplier behavior in creating a fair and safe workplace, and covers employment practices, such as wages and benefits, working hours, health and safety, working age, and discriminatory practices, as well as environmental, ethical, and other legal matters. In addition, our social responsibility policy establishes our expectations for our global suppliers and guides our oversight. This policy is derived from the policies, standards, and conventions of the International Labor Organization, and includes a commitment to the Universal Declaration of Human Rights.

### **Our Global Distribution Network**

The majority of all finished goods manufactured for us is shipped to our distribution facilities or to designated third-party facilities for final inspection, allocation, and reshipment to customers. The goods are delivered to our customers and us by independent shippers. We choose the form of shipment based upon needs, costs, and timing considerations.

In the United States, we operate two distribution centers in Georgia: an approximately 1.1 million square-foot multi-channel facility in Braselton and a 0.5 million square-foot facility in Stockbridge. We also outsource distribution activities to third-party logistics providers located in California. Our distribution center activities include receiving finished goods from our vendors, inspecting those products, preparing them for retail and wholesale presentation, and shipping them to our wholesale customers, retail stores, and eCommerce customers.

Internationally, we operate directly or outsource our distribution activities to third-party logistics providers in Canada, China, Mexico, and Vietnam to support shipment to the United States, as well as our international wholesale accounts, international licensees, international eCommerce operations, and Canadian and Mexican retail store networks.

### **Governmental Regulation**

We are subject to laws, regulations and standards set by various governmental authorities around the world, including in the United States, Canada, and Mexico, including:

- those imposed by the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission (“SEC”), and the New York Stock Exchange (“NYSE”);
- the U.S. Foreign Corrupt Practices Act, and similar world-wide anti-bribery laws;

- health care, employment and labor laws;
- product and consumer safety laws, including those imposed by the U.S. Consumer Product Safety Commission and the Americans with Disabilities Act of 1990;
- data privacy laws, including the E.U. General Data Protection Act and the California Consumer Privacy Act;
- trade, transportation and logistics related laws, including tariffs and orders issued by Customs and Border Protection; and
- applicable environmental laws.

A substantial portion of our products is imported into the United States, Canada, and Mexico. These products are subject to various customs laws, which may impose tariffs, as well as quota restrictions. In addition, each of the countries in which our products are sold has laws and regulations covering imports. The United States and other countries in which our products are sold may impose, from time to time, new duties, tariffs, surcharges, or other import controls or restrictions, or adjust presently prevailing duty or tariff rates or levels. We, therefore, actively monitor import restrictions and developments and seek to minimize our potential exposure to import related risks through shifts of production among countries, including consideration of countries with tariff preference and free trade agreements, manufacturers, and geographical diversification of our sources of supply.

Additionally, we are subject to various other federal, state, local and foreign laws and regulations that govern our activities, operations, and products, including data privacy, truth-in-advertising, accessibility, customs, wage and hour laws and regulations, and zoning and occupancy ordinances that regulate retailers generally and govern the promotion and sale of merchandise and the operation of retail stores and eCommerce sites. Noncompliance with these laws and regulations may result in substantial monetary penalties and criminal sanctions.

### **Competition**

The baby and young children’s apparel and accessories market is highly competitive. Competition is generally based on a variety of factors, including comfort and fit, quality, pricing, experience, and selection. Both branded and private label manufacturers as well as specialty apparel retailers aggressively compete in the baby and young children’s apparel market. Our primary competitors include (in alphabetical order): Gap, Old Navy, and The Children’s Place (specialty apparel); Cat & Jack and Garanimals (private label); and Disney, Nike, and Under Armour (national brands). Because of the highly fragmented nature of the industry, we also compete with many small manufacturers and retailers. We believe that the strength of our brand names, combined with our breadth and value of product offerings, longevity in the marketplace, distribution footprint, and operational expertise, position us well against these competitors.

### **Seasonality and Weather**

We experience seasonal fluctuations in our sales and profitability due to the timing of certain holidays and key retail shopping periods, which generally have resulted in lower sales and gross profit in the first half of our fiscal year versus the second half of the 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 fiscal year. In addition, our business is susceptible to unseasonable weather conditions, which could influence consumer trends, customer traffic, and shopping habits. For example, extended periods of unseasonably warm temperatures during the winter season or cool temperatures during the summer season could affect the timing of, and reduce or shift, demand.

### **Human Capital Resources**

As of the end of fiscal 2021, we had approximately 15,900 employees globally. Of these, approximately 12,200 of our employees worked in our retail stores across North America, 2,200 employees worked in our distribution centers, and 1,500 employees worked in our various corporate offices around the world. Approximately 13,000 employees worked in the United States, 2,200 employees worked in Canada, 350 employees worked in Mexico, and 350 employees worked in other countries, including Hong Kong. As of the end of fiscal 2021, approximately 150 employees were unionized employees, all of whom were in Mexico. We believe we have good labor relationships with our employees.

### **Talent and Development**

Everything we do is guided by our core values:

- Act with Integrity
- Exceed Expectations
- Inspire Innovation

- Succeed Together
- Invest in People

We believe that to succeed as a business and to positively impact families and our communities, we must first create and maintain an inclusive, supportive workplace culture that fosters high employee engagement. We believe deeply in developing our employees and offer numerous formal training opportunities as well as ongoing informal on-the-job learning, including:

- mentoring, reverse mentoring, and executive development programs that nurture emerging talent and facilitate cross-generational knowledge sharing, benefiting employees at all stages of their careers;
- development days, when employees step away from their day-to-day responsibilities for curated professional growth opportunities;
- online courses and formal development programs designed to enhance personal leadership skills, business acumen, and people management skills, as well as specialized development resources for our retail store, distribution center and office employees; and
- each year, we award 20 scholarships to Carter's employees and children of employees to attend an accredited college or university.

### ***Diversity and Inclusion***

Additionally, we are committed to ensuring that our workforce reflects our diverse world through a range of efforts to broaden diversity and ensure fairness across our global enterprise. Our Diversity & Inclusion ("D&I") efforts are driven by cross-functional teams charged with guiding and implementing the organization's D&I efforts. These teams oversee our efforts to establish and improve inclusive policies in four key areas of our management processes: leadership, strategies and processes, programs and benefits, and policies and compliance. We continually measure and monitor diversity metrics including pay equity, retention, new hires, internal promotions and identified successors, and our D&I education equips employees with the tools and support needed to further enhance a workplace culture of inclusion.

### ***Health and Safety***

We maintain a safety culture with the goal of eliminating workplace incidents, risks and hazards. We have created and implemented processes to help eliminate safety events by reducing their frequency and severity. We also review and monitor our performance closely. In response to the ongoing COVID-19 pandemic, we have implemented and continue to implement safety measures in all our facilities to protect our customers and employees, including ensuring social distancing, frequent cleaning, and use of personal protective equipment for all in our retail stores, and maintaining safe working distances and conditions at our distribution centers.

### ***Available Information***

Our primary internet address is [www.carters.com](http://www.carters.com). On our investor relations website ([ir.carters.com](http://ir.carters.com)), we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, director and officer reports on Forms 3, 4, and 5, and any amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC reports can be accessed through the investor relations section of our website. We also make available on our website the *Carter's Code of Ethics*, our corporate governance principles, and the charters for the Compensation, Audit, and Nominating and Corporate Governance Committees of the Board of Directors. The information contained on our website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K or any other reports we file with or furnish to the SEC. The SEC maintains an internet site, [www.sec.gov](http://www.sec.gov), containing reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

You should carefully consider each of the following risk factors as well as the other information contained in this Annual Report on Form 10-K and our other filings with the SEC in evaluating our business. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impact our business operations. If any of the following risks actually occur, our operating results may be affected.

### **Risks Related to Global and Macroeconomic Conditions**

***The ongoing COVID-19 pandemic and other global crises have had and may in the future have a significant adverse effect on our business, financial condition, and results of operations.***

Global crises, including political instability or other global events that result in the disruption of trade, the production and distribution of our products, or our sales operations, have had and may in the future have a significant adverse effect on our business, financial condition, and results of operations.

For example, in December 2019, an outbreak of a new strain of coronavirus (including variants, “COVID-19”) began in Wuhan, China. In March 2020, the World Health Organization declared COVID-19 a pandemic and a national emergency was declared in the United States and many other countries. National, state, and local governments and private entities mandated and continue to mandate various restrictions as new waves of the pandemic and new strains of the virus spread across the globe, including travel restrictions, restrictions on public gatherings, stay at home orders and advisories, and quarantining of people who may have been exposed to the virus. The response to the COVID-19 pandemic has negatively affected the global economy, disrupted global supply chains, and created significant disruption of the financial and retail markets, including increased unemployment rates and a disruption in consumer demand for baby and children’s clothing and accessories. As a result, the COVID-19 pandemic and related measures taken to contain the spread of COVID-19 have had, and will likely continue to have, a significant adverse effect on our business, financial condition, and results of operations. The extent to which COVID-19 impacts our business, results of operations, and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19, the effectiveness and availability of vaccines and boosters, and the efficacy, scope, and duration of other actions to limit the spread of COVID-19 or treat its impact, among others.

Similarly, we are also subject to general political and economic risks in connection with our global operations, including political instability, terrorist attacks, and changes in diplomatic and trade relationships, any of which may have a significant adverse effect on our business, financial condition, and results of operations.

***Our business is sensitive to overall levels of consumer spending, particularly in the young children’s apparel market.***

Both retail and wholesale consumer demand for young children’s apparel and accessories, specifically brand name apparel products, is affected by the overall level of consumer spending. Overall spending in the market is affected by a number of global and macroeconomic factors, such as overall economic conditions and employment levels, uncertainty in the political climate, gasoline and utility costs, business conditions, availability of consumer credit, tax rates, the availability of tax credits, interest rates, inflationary pressures, levels of consumer indebtedness, foreign currency exchange rates, weather, and overall levels of consumer confidence. We have experienced many of these factors due to the ongoing COVID-19 pandemic and the related responses of national, state, and local government and public health officials. Furthermore, any increases in consumer discretionary spending during times of crisis may be temporary, such as those related to government stimulus programs, including programs specifically targeted to assist families with young children. Additionally, birth rate fluctuations, which in turn affect the number of customers that are acquired and retained, can have a material impact on consumer spending and our business. For instance, in recent years we have seen a reduction in the birth rate in the United States, and a reduction in the size of the market for young children’s apparel and accessories. Reductions, or lower-than-expected growth, in the level of discretionary or overall consumer spending may have a material adverse effect on our sales and results of operations.

### **Risks Related to Our Brands and Product Value**

***The acceptance of our products in the marketplace is affected by consumer tastes and preferences, along with fashion trends.***

We believe that our continued success depends on our ability to create products that provide a compelling value proposition for our consumers in all of our distribution channels. There can be no assurance that the demand for our products will not decline, or that we will be able to successfully and timely evaluate and adapt our products to changes in consumer tastes and preferences

or fashion trends. If demand for our products declines, promotional pricing may be required to sell out-of-season or excess merchandise, and our profitability and results of operations could be adversely affected.

***Our failure to protect our intellectual property rights could diminish the value of our brand, weaken our competitive position, and adversely affect our results.***

We currently rely on a combination of trademark, unfair competition, and copyright laws, as well as licensing and vendor arrangements, to establish and protect our intellectual property assets and rights. The steps taken by us or by our licensees and vendors to protect our proprietary rights may not be adequate to prevent either the counterfeit production of our products or the infringement of our trademarks or proprietary rights by others. In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our proprietary rights and where third parties may have rights to conflicting trademarks, and it may be more difficult for us to successfully challenge the use of our proprietary rights by other parties in those countries. If we fail to protect and maintain our intellectual property rights, the value of our brands could be diminished, and our competitive position may suffer. Further, third parties may assert intellectual property claims against us, particularly as we expand our business geographically or through acquisitions, and any such claim could be expensive and time consuming to defend, regardless of its merit. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products, which could have an adverse effect on our results of operations.

***The value of our brands, and our sales, could be diminished if we are associated with negative publicity, including through actions by our employees, and our vendors, third-party manufacturers, and licensees, over whom we have limited control.***

Although we maintain policies with our employees, vendors, third-party manufacturers, and licensees that promote ethical business practices, and our employees, agents, and third-party compliance auditors periodically visit and monitor the operations of these entities, we do not control our vendors, third-party manufacturers, or licensees, or their practices. A violation of our vendor policies, licensee agreements, health and safety standards, labor laws, anti-bribery laws, or other policies or laws by these employees, vendors, third-party manufacturers, or licensees could damage the image and reputation of our brands and could subject us to liability. As a result, negative publicity regarding us or our brands or products, including licensed products, could adversely affect our reputation and sales. Further, while we take steps to ensure the reputations of our brands are maintained through license and vendor agreements, there can be no guarantee that our brand image will not be negatively affected through its association with products or actions of our licensees or vendors.

***We may experience delays, product recalls, or loss of revenues if our products do not meet our quality standards.***

From time to time, we receive shipments of product from our third-party vendors that fail to conform to our quality control standards. A failure in our quality control program may result in diminished inventory levels and product quality, which in turn may result in increased order cancellations and product returns, decreased consumer demand for our products, or product recalls, any of which may have a material adverse effect on our results of operations and financial condition. In addition, products that fail to meet our standards, or other unauthorized products, could end up in the marketplace without our knowledge. This could materially harm our brand and our reputation in the marketplace.

#### **Risks Related to Operating a Global Business**

***We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can.***

The global baby and young children's apparel and accessories market is very competitive and includes both branded and private label manufacturers. Because of the fragmented nature of the industry, we also compete with many other manufacturers and retailers including in certain instances some of our wholesale accounts. Some of our competitors have greater financial resources and larger customer bases than we have. As a result, these competitors may be able to adapt to changes in customer requirements more quickly, take advantage of acquisitions and other opportunities more readily, devote greater resources to the marketing and sale of their products, and adopt more aggressive pricing strategies than we can.

***Financial difficulties for, or the loss of one or more of, our major wholesale customers could result in a material loss of revenues.***

A significant amount of our business is with our wholesale customers. For fiscal 2021, we derived approximately 32% of our consolidated net sales from our U.S. Wholesale segment and approximately 32% of our consolidated net sales from our top ten wholesale customers. As of the end of fiscal 2021, approximately 80% of our gross accounts receivable were from our ten largest wholesale customers, with three of these customers having individual receivable balances in excess of 10% of our total

accounts receivable. Furthermore, we do not enter into long-term sales contracts with our major wholesale customers, relying instead on product performance, long-standing relationships, and our position in the marketplace.

As we have experienced in the past, we face the risk that if one or more of these customers significantly decreases their business or terminates their relationship with us as a result of financial difficulties (including bankruptcy or insolvency), competitive forces, consolidation, reorganization, or other reasons, then we may have significant levels of excess inventory that we may not be able to place elsewhere, a material decrease in our sales, or material impact on our operating results. In addition, our reserves for doubtful accounts for estimated losses resulting from the inability of our customers to make payments may prove not to be sufficient if any one or more of our customers are unable to meet outstanding obligations to us, which could materially adversely affect our operating results. If the financial condition or credit position of one or more of our customers were to deteriorate, or such customer fails, or is unable to pay the amounts owed to us in a timely manner, this could have a significant adverse impact on our business and results of operations.

***Our retail success is dependent upon identifying locations and negotiating appropriate lease terms for retail stores.***

A significant portion of our revenues is through our retail stores in leased retail locations across the United States, Canada, and Mexico. Successful operation of a retail store depends, in part, on the overall ability of the retail location to attract a consumer base sufficient to generate profitable store sales volumes. If we are unable to identify new retail locations with consumer traffic sufficient to support a profitable sales level, our retail growth may be limited. Some new stores may be located in areas where we have existing sales channels. Increasing the number of stores in these markets may result in inadvertent diversion of customers and sales from our existing sales channels in the same market, thereby negatively affecting our results of operations. Further, if existing stores do not maintain a sufficient customer base that provides a reasonable sales volume or we are unable to negotiate appropriate lease terms for the retail stores, there could be a material adverse impact on our sales, gross margin, and results of operations. In addition, if consumer shopping preferences transition more from brick-and-mortar stores to online retail experiences, with us or other retailers, any increase we may see in our eCommerce sales may not be sufficient to offset the decreases in sales from our brick-and-mortar stores.

We also must be able to effectively renew our existing store leases on acceptable terms. In addition, from time to time, particularly in response to the ongoing COVID-19 pandemic, we may seek to renegotiate existing lease terms or downsize, consolidate, reposition, or close some of our real estate locations, which in most cases requires a modification of an existing store lease. Failure to renew existing store leases, secure adequate new lease terms, or successfully modify existing locations, or failure to effectively manage the profitability of our existing fleet of stores, could have a material adverse effect on our results of operations.

Additionally, the economic environment may at times make it difficult to determine the fair market rent of real estate properties within the United States and internationally. This could impact the quality of our decisions to exercise lease options and renew expiring leases at negotiated rents. Any adverse effect on the quality of these decisions could impact our ability to retain real estate locations adequate to meet our targets or efficiently manage the profitability of our existing fleet of stores and could have a material adverse effect on our results of operations.

***Our eCommerce business faces distinct risks, and our failure to successfully manage it could have a negative impact on our profitability.***

The successful operation of our eCommerce business as well as our ability to provide a positive shopping experience that will generate orders and drive subsequent visits depends on efficient and uninterrupted operation of our order-taking and fulfillment operations. Risks associated with our eCommerce business in the United States, Canada, and Mexico include:

- the failure of the computer systems, including those of third-party vendors, that operate our eCommerce sites and mobile applications, including, among others, inadequate system capacity, service outages, computer viruses, human error, changes in programming, security breaches, system upgrades or migration of these services to new systems;
- disruptions in telecommunications services or power outages;
- reliance on third parties for computer hardware and software, as well as delivery of merchandise to our customers on-time and without damage;
- limitations of shipping volumes which may be imposed by service providers;
- rapid technology changes;
- the failure to deliver products to customers on-time and within customers' expectations;
- credit or debit card, or other electronic payment-type, fraud, or disruptions in payment systems;

- the diversion of sales from our physical stores;
- natural disasters or adverse weather conditions;
- changes in applicable federal, state and international regulations;
- liability for online content; and
- consumer privacy concerns and regulation.

Problems in any of these areas could result in a reduction in sales, increased costs and damage to our reputation and brands, which could adversely affect our business and results of operations. In addition, in fiscal 2021 we experienced a decrease in net sales in our eCommerce channel compared to fiscal 2020. Our eCommerce business may continue to be negatively impacted if consumers shift back to traditional brick-and-mortar retail after the COVID-19 pandemic.

***Profitability and our reputation and relationships could be negatively affected if we do not adequately forecast the demand for our products and, as a result, create significant levels of excess inventory or insufficient levels of inventory.***

There can be no assurance that we will be able to successfully anticipate changing consumer preferences and product trends or economic conditions and, as a result, we may not successfully manage inventory levels to meet our future order requirements. If we fail to accurately forecast consumer demand, we may experience excess inventory levels or a shortage of product required to meet the demand. Inventory levels in excess of consumer demand may result in inventory write-downs (which occurred, for example, in the first quarter of fiscal 2020 due to the COVID-19 pandemic) and the sale of excess inventory at discounted prices, which could have an adverse effect on the image and reputation of our brands and negatively impact profitability. On the other hand, if we underestimate demand for our products, our third-party manufacturers may not be able to produce products to meet consumer requirements, and this could result in delays in the shipment of products and lost revenues, as well as damage to our reputation and relationships. These risks could have a material adverse effect on our brand image, as well as our results of operations and financial condition.

***Our profitability may decline as a result of increasing pressure on margins, including deflationary pressures on our selling prices and increases in production costs and costs to serve.***

The global apparel industry is subject to pricing pressure caused by many factors, including intense competition, the promotional retail environment, and changes in consumer demand. The demand for baby and young children's apparel and accessories in particular may also be subject to other external factors, such as general inflationary pressures, as well as the costs of our products, which are driven in part by the costs of raw materials (including cotton and other commodities), labor, fuel, transportation and duties, any increases in mandatory minimum wages, and the costs to deliver those products to our customers. If external pressures, including deflation, cause us to reduce our sales prices and we fail to sufficiently reduce our product costs or operating expenses, or if we are unable to fully optimize prices or pass on increased costs to our customers, our profitability could decline. Additionally, while deflation could positively impact our product costs, it could have an adverse effect on our average selling prices per unit, resulting in lower sales and operating results. This could have a material adverse effect on our results of operations, liquidity, and financial condition.

***We may not be able to increase prices to fully offset inflationary pressures on costs, such as raw materials, labor, and transportation costs, which may impact our expenses and profitability.***

We rely on vendors, distribution resources and transportation providers. In fiscal 2021 and the early part of 2022, the costs of raw materials, packaging materials, labor, energy, fuel, transportation, and other inputs necessary for the production and distribution of our products have rapidly increased. We also expect the pressures of input cost inflation to continue into 2022.

Our attempts to offset these cost pressures, such as through increases in the selling prices of some of our products, may not be successful. Higher product prices may result in reductions in sales volume, as consumers may choose less expensive options, or forego some purchases altogether, during an economic downturn. To the extent that price increases are not sufficient to offset these increased costs adequately or in a timely manner, and/or if they result in significant decreases in sales volume, our business, financial condition, or operating results may be adversely affected.

***Our revenues, product costs, and other expenses are subject to foreign economic and currency risks due to our operations outside of the United States.***

We have operations in Canada, Mexico, and Asia, and our vendors, third-party manufacturers, and licensees are located around the world. The value of the U.S. dollar against other foreign currencies has experienced significant volatility in recent years. While our business is primarily conducted in U.S. dollars, we source substantially all of our production from Asia, and we generate significant revenues in Canada. Cost increases caused by currency exchange rate fluctuations could make our products

less competitive or have a material adverse effect on our profitability. Currency exchange rate fluctuations could also disrupt the businesses of our third-party manufacturers that produce our products by making their purchases of raw materials or products more expensive and more difficult to finance. Additionally, fluctuations in exchange rates impact the amount of our reported sales and expenses, which could have a material adverse effect on our financial position, results of operations, and cash flows.

***Our business could suffer a material adverse effect from unseasonable or extreme weather conditions, or other effects of climate change.***

Our business is susceptible to unseasonable weather conditions, which could influence customer demand, consumer traffic, and shopping habits. For example, extended periods of unseasonably warm temperatures during the winter season or cool temperatures during the summer season have in the past and could in the future affect the timing of and reduce or shift demand for our products, and thereby could have an adverse effect on our operating results, financial position, and cash flows. In addition, extreme weather conditions in the areas in which our stores are located could negatively affect our business, operating results, financial position, and cash flows. For example, frequent or unusually heavy or intense snowfall, flooding, hurricanes, or other extreme weather conditions over an extended period have caused and could in the future cause our stores to close for a period of time or permanently, and could make it difficult for our customers to travel to our stores or to receive products shipped to them, which in turn could negatively impact our operating results.

In addition, there is concern that climate changes could cause significant changes in weather patterns around the globe and an increase in the frequency and severity of natural disasters. These changes may increase the effects described above, and changing weather patterns could result in decreased agricultural productivity in certain regions, which may limit availability and/or increase the cost of certain key materials, such as cotton. Public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation, and raw material costs, and may require us to make additional investments in facilities and equipment. As a result, the effects of climate change could have a long-term adverse impact on our business and results of operations.

**Risk Relating to Litigation**

***We are and may become subject to various claims and pending or threatened lawsuits, including as a result of investigations or other proceedings related to previously disclosed investigations.***

We are subject to various claims and pending or threatened lawsuits in the course of our business, including claims that our designs infringe on the intellectual property rights of third parties. We are also affected by trends in litigation, including class action litigation brought under various laws, including consumer protection, employment, and privacy and information security laws. In addition, litigation risks related to claims that technologies we use infringe intellectual property rights of third parties have been amplified by the increase in third parties whose primary business is to assert such claims. Reserves are established based on our best estimates of our potential liability. However, we cannot accurately predict the ultimate outcome of any such proceedings due to the inherent uncertainties of litigation. Regardless of the outcome or whether the claims are meritorious, legal and regulatory proceedings may require that management devote substantial time and expense to defend the Company. In the event we are required or determine to pay amounts in connection with any such claims or lawsuits, such amounts could exceed applicable insurance coverage, if any, or contractual rights available to us. As a result, such lawsuits could be significant and have a material adverse impact on our business, financial condition, and results of operations.

In addition, as previously reported, in 2009 the SEC and the U.S. Attorney's Office began conducting investigations, with which we cooperated, related to customer margin support provided by us, including undisclosed margin support commitments and related matters. In December 2010, we entered into a non-prosecution agreement with the SEC pursuant to which the SEC agreed not to charge us with any violations of federal securities laws, commence any enforcement action against us, or require us to pay any financial penalties in connection with the SEC investigation of customer margin support provided by us, conditioned upon our continued cooperation with the SEC's investigation and with any related proceedings. We have incurred, and may continue to incur, substantial expenses for legal services due to the SEC and U.S. Attorney's Office investigations and any related proceedings. These matters may continue to divert management's time and attention away from operations. We also expect to bear additional costs pursuant to our advancement and indemnification obligations to directors and officers under the terms of our organizational documents in connection with proceedings related to these matters. Our insurance may not provide coverage to offset all of the costs incurred in connection with these proceedings.



### **Risks Related to Cybersecurity, Data Privacy, and Information Technology**

***Our systems, and those of our third-party vendors, containing personal information and payment data of our retail store and eCommerce customers, employees, and other third parties could be breached, which could subject us to adverse publicity, costly government enforcement actions or private litigation, and expenses.***

We rely on the security of our networks, databases, systems, and processes to protect our proprietary information and information about our customers, employees, and vendors, including customer payment information. We have established physical, electronic, and organizational measures to safeguard and secure our systems to prevent data compromise and rely on commercially available systems, software, tools, and monitoring to provide security for our IT systems and the processing, transmission and storage of digital information. We have also outsourced elements of our IT systems, including to cloud-based solution vendors, and, as a result, a number of third-party vendors may or could have access to our confidential information. Our IT systems are vulnerable to damage or interruption from a variety of sources, including physical damage, telecommunications or network failures or interruptions, system malfunction, natural disasters, malicious human acts, terrorism, and war, and we have experienced interruptions in the past. These systems, including our servers, are also vulnerable to physical or electronic break-ins, security breaches from inadvertent or intentional actions by our employees, third-party service providers, contractors, consultants, business partners, and/or other third parties, or from cyber-attacks by malicious third parties (including the deployment of harmful malware, ransomware, denial-of-service attacks, social engineering, and other means to affect service reliability and threaten the confidentiality, integrity, and availability of information).

Cyber criminals are constantly devising schemes to circumvent information technology security safeguards and other retailers have recently suffered serious data security breaches. The risk of a security breach or disruption, particularly through cyber-attacks or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity, and sophistication of attempted attacks and intrusions from around the world have increased. We may not be able to anticipate all types of security threats, and we may not be able to implement preventive measures effective against all such security threats. The techniques used by cyber criminals change frequently, may not be recognized until launched, and can originate from a wide variety of sources, including outside groups such as external service providers, organized crime affiliates, terrorist organizations, or hostile foreign governments or agencies. It is possible that we or our third-party vendors may experience cybersecurity and other breach incidents that remain undetected for an extended period. Even when a security breach is detected, the full extent of the breach may not be determined immediately. The costs to us to mitigate network security issues, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant and, while we have implemented security measures to protect our IT and data security infrastructure, our efforts to address these issues may not be successful.

If unauthorized parties gain access to our networks or databases, or those of our vendors, they may be able to steal, publish, delete, modify, or block our access to our private and sensitive internal and third-party information, including payment information and personally identifiable information. In such circumstances, we could be held liable to our customers, other parties, or employees as well as be subject to regulatory or other actions for breaching privacy law (including the E.U. General Data Protection Act and the California Consumer Privacy Act) or failing to adequately protect such information. This could result in costly investigations and litigation exceeding applicable insurance coverage or contractual rights available to us, civil or criminal penalties, operational changes, or other response measures, loss of consumer confidence in our security measures, and negative publicity that could adversely affect our financial condition, results of operations, and reputation. Further, if we are unable to comply with the security standards established by banks and the payment processing industry, we may be subject to fines, restrictions, and expulsion from payment acceptance programs, which could adversely affect our retail operations. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future. If our IT systems fail and our redundant systems or disaster recovery plans are not adequate to address such failures, or if our business interruption insurance does not sufficiently compensate us for any losses that we may incur, our revenues and profits could be reduced and the reputation of our brand and our business could be materially and adversely affected.

We are also reliant on the security practices of our third-party service providers, which may be outside of our direct control. The services provided by these third parties are subject to the same risk of outages, other failures and security breaches described above. If these third parties fail to adhere to adequate security practices, or experience a breach of their systems, the data of our employees and customers may be improperly accessed, used or disclosed. In addition, our third-party providers may take actions beyond our control that could harm our business, including discontinuing or limiting our access to one or more services, increasing pricing terms, terminating, or seeking to terminate our contractual relationship altogether, or altering how we are able to process data in a way that is unfavorable or costly to us. Although we expect that we could obtain similar services from other third parties, if our arrangements with our current providers were terminated, we could experience interruptions in our business, as well as delays and additional expenses in arranging for alternative cloud infrastructure services. Any loss or

interruption to our systems or the services provided by third parties would adversely affect our business, financial condition, and results of operations.

***Failure to implement new information technology systems or needed upgrades to our systems, including operational and financial systems, could adversely affect our business.***

As our business continues to grow in size, complexity, and geographic footprint, we have enhanced and upgraded our information technology infrastructure and we expect there to be a regular need for additional enhancements and upgrades as we continue to grow. Failure to implement new systems or upgrade systems, including operational and financial systems, as needed or complications encountered in implementing new systems or upgrading existing systems could cause disruptions that may adversely affect our business and results of operations. Further, additional investments needed to upgrade and expand our information technology infrastructure may require significant investment of additional resources and capital, which may not always be available or available on favorable terms.

#### **Risks Related to our Global Supply Chain and Labor Force**

***We source substantially all of our products through foreign production arrangements. Our dependence on foreign supply sources are subject to risks associated with global sourcing and manufacturing which could result in disruptions to our operations.***

We source substantially all of our products through a network of vendors primarily in Asia, principally coordinated by our Hong Kong sourcing office. Our global supply chain could be negatively affected due to a number of factors, including:

- political instability or other global events resulting in the disruption of operations or trade in or with foreign countries from which we source our products;
- the occurrence of a natural disaster, unusual weather conditions, or a disease epidemic in foreign countries from which we source our products;
- financial instability, including bankruptcy or insolvency, of one or more of our major vendors;
- the imposition of new laws and regulations relating to imports, duties, taxes, and other charges on imports, including those that the U.S. government has implemented and may further implement on imports from China;
- increased costs of raw materials (including cotton and other commodities), labor, fuel, and transportation;
- interruptions in the supply of raw materials, including cotton, fabric, and trim items;
- increases in the cost of labor in our sourcing locations;
- changes in the U.S. customs procedures concerning the importation of apparel products;
- unforeseen delays in customs clearance of any goods;
- disruptions in the global transportation network, such as a port strikes or delays, work stoppages or other labor unrest, capacity withholding, world trade restrictions, acts of terrorism, or war;
- the application of adverse foreign intellectual property laws;
- the ability of our vendors to secure sufficient credit to finance the manufacturing process, including the acquisition of raw materials;
- potential social compliance concerns resulting from our use of international vendors, third-party manufacturers, and licensees, over whom we have limited control;
- manufacturing delays or unexpected demand for products may require the use of faster, but more expensive, transportation methods, such as air-freight services; and
- other events beyond our control that could interrupt our supply chain and delay receipt of our products into the United States, Canada, and Mexico, as well as the ninety additional countries in which our international partners and international wholesale customers operate.

The occurrence of one or more of these events could result in disruptions to our operations, which in turn could increase our cost of goods sold, decrease our gross profit, or impact our ability to deliver to our customers. The COVID-19 pandemic has impacted and continues to impact global supply chain operations, causing delays in the production and transportation of our product. For example, in fiscal 2020 the COVID-19 pandemic had a material adverse effect on our sourcing operations, particularly in China and the rest of Asia, and has slowed our ability to import products into North America. In addition, in

fiscal 2021, we experienced increased inbound transportation and freight costs, and we expect these increased costs to continue and to adversely impact our financial and operating results in fiscal 2022.

Also, in fiscal 2020 and 2021, the U.S. Government placed sanctions on China's Xinjiang Production and Construction Corporation ("XPCC") for human rights violations and took other significant steps to address the forced labor concerns in the Xinjiang Uyghur Autonomous Region (the "XUAR") of China, including withhold release orders issued by U.S. Customs and Border Protection, ("US CBP"), which may in turn have an adverse effect on global supply chains, including our own supply chains for cotton and cotton-containing products, and the price of cotton in the marketplace. The XUAR is the source of large amounts of cotton and textiles for the global apparel supply chain. Although we do not knowingly source any products from the XUAR and we have no known involvement with China's Xinjiang Production and Construction Corporation ("XPCC") or its affiliates, we could be subject to penalties, fines or sanctions if any of the vendors from which we purchase goods is found or suspected to have dealings, directly or indirectly, with XPCC or entities with which it may be affiliated. Additionally, our products have been and, in the future, could be held or delayed by the US CBP under the withhold release orders, which would cause delays and unexpectedly affect our inventory levels. Even if we were not subject to penalties, fines, or sanctions, if products we source are associated in any way to XPCC or the XUAR, our reputation could be damaged.

***A relatively small number of vendors supply a significant amount of our products, and losing one or more of these vendors could have a material adverse effect on our business.***

In fiscal 2021, we purchased approximately 54% of our products from ten vendors, of which approximately half comes from three vendors. Additionally, we estimate that approximately 80% of the fabric that is used in the manufacture of our products is sourced from China. We expect that we will continue to source a significant portion of our products from these vendors. We do not have agreements with our major vendors that would provide us with assurances on a long-term basis as to adequate supply or pricing of our products. If any of our major vendors decide to discontinue or significantly decrease the volume of products they manufacture for us, raise prices on products we purchase from them, or become unable to perform their responsibilities (e.g., if our vendors become insolvent or experience financial difficulties, manufacturing capacity constraints, significant labor disputes, or restrictions imposed by foreign governments) our business, results of operations, and financial condition may be adversely affected.

***Labor or other disruptions along our supply chain may adversely affect our relationships with customers, reputation with consumers, and results of operations.***

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes at third-party factories where our goods are produced, the shipping ports we use, or within our transportation carriers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during our peak manufacturing and importing times. For example, we source a significant portion of our products through a single port on the west coast of the United States. Work slowdowns and stoppages relating to labor agreement negotiations involving the operators of this west coast port and unions have in the past resulted in a significant backlog of cargo containers entering the United States. We have also shifted some of our product deliveries to other ports of entry which may experience volume increases that may create delays at these ports that did not exist before we, and others, shifted significant volume to them. Further, in the past, the insolvency of a major shipping company has also had an effect on our supply chain. As a result, we have in the past experienced delays in the shipment of our products. In the event that these slow-downs, disruptions or strikes occur in the future in connection with labor agreement negotiations or otherwise, it may have a material adverse effect on our financial position, results of operations, or cash flows.

***Our inability to effectively source and manage inventory could negatively impact our ability to timely deliver our inventory supply and disrupt our business, which may adversely affect our operating results.***

We source all of our products from a global network of third-party suppliers. If we experience significant increases in demand, or need to replace an existing vendor or shift production to vendors in new countries, there can be no assurance that additional manufacturing capacity will be available when required on terms that are acceptable to us or that any vendor would allocate sufficient capacity to us in order to meet our requirements. In addition, for any new vendors, we may encounter delays in production and added costs as a result of the time it takes to train our vendors in producing our products and adhering to our quality control standards. In the event of a significant disruption in the supply of the fabrics or raw materials (including cotton) used by our vendors in the manufacture of our products, such as an inability to source from a particular vendor or geographic region, our vendors might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. Any delays, interruption, or increased costs in the manufacture of our products could have a material adverse effect on our operating results or cash flows.

Additionally, the nature of our business requires us to carry a significant amount of inventory, especially prior to the peak holiday selling season when we build up our inventory levels, and to support our retail omni-channel strategies, including our buy on-line and pick-up in store program. Merchandise usually must be ordered well in advance of the season and frequently before apparel trends are confirmed by customer purchases. We must enter into contracts for the purchase and manufacture of merchandise well in advance of the applicable selling season. As a result, we are vulnerable to demand and pricing shifts and to suboptimal selection and timing of merchandise purchases and allocations to our sales channels. In the past, we have not always predicted our customers' preferences and acceptance levels of our trend items with accuracy. If sales do not meet expectations, too much inventory may cause excessive markdowns and, therefore, lower-than-planned margins, and too little inventory may result in lost sales.

***Our Braselton, Georgia distribution facility handles a large portion of our merchandise distribution. If we encounter problems with this facility, our ability to deliver our products to the market could be adversely affected.***

We handle a large portion of our merchandise distribution for our U.S. stores and our eCommerce operations from our facility in Braselton, Georgia. Our ability to meet consumer expectations, manage inventory, complete sales, and achieve objectives for operating efficiencies depends on proper operation of this facility. If we are not able to distribute merchandise to our stores or customers because we have exceeded our capacity at our distribution facility (such as a high level of demand during peak periods) or because of natural disasters, health issues, accidents, system failures, disruptions, or other events, our sales could decline, which may have a materially adverse effect on our earnings, financial position, and our reputation. We experienced an increase of COVID-19 cases in this facility in connection with the Delta and Omicron variants, which negatively affected and may continue to negatively affect capacity. Additionally, we have experienced significant competition in hiring employees for this facility, which we attribute to the impacts of COVID-19 and to increased competition and rising wages. To address this, we have increased wages and implemented other policies in order to retain existing employees and attract additional employees. These wage increases impacted our operating results. We are likely to continue to face challenges in hiring employees for this facility due to increased competition and we may incur additional employee-related costs, when necessary, which would impact our operating results. These staffing difficulties have caused and may in the future cause additional capacity constraints. Surges in COVID-19 cases among employees could also affect the capacity of this facility, and therefore our operating results. Additionally, if we are unable to adequately staff this facility to meet demand, or if the cost of such staffing is higher than projected due to competition, mandated wage increases, regulatory changes, or other factors, our operating results may be further harmed.

In addition, we use an automated system that manages the order processing for our eCommerce business. In the event that this system becomes inoperable for any reason, we may be unable to ship orders in a timely manner, and as a result, we could experience a reduction in our direct-to-consumer business, which could negatively impact our sales and profitability.

#### **Risks Relating to Our International Expansion**

***We may be unsuccessful in expanding into international markets.***

We cannot be sure that we can successfully complete any planned international expansion or that new international business will be profitable or meet our expectations. We do not have significant experience operating in markets outside of North America. Consumer demand, behavior, tastes, and purchasing trends may differ in international markets and, as a result, sales of our products may not be successful or meet our expectations, or the margins on those sales may not be in line with those we currently anticipate. We may encounter differences in business culture and the legal environment that may make working with commercial partners and hiring and retaining an adequate employee base more challenging. We may also face difficulties integrating foreign business operations with our current operations. Significant changes in foreign laws or relations, such as political uncertainty and potential trade wars between nations in which we operate, may also hinder our success in new markets. Our entry into new markets may have upfront investment costs that may not be accompanied by sufficient revenues to achieve typical or expected operational and financial performance and such costs may be greater than expected. If our international expansion plans are unsuccessful, our results could be materially adversely affected.

### **Risks Related to Governmental and Regulatory Changes**

***Failure to comply with the various laws and regulations as well as changes in laws and regulations could have an adverse impact on our reputation, financial condition, or results of operations.***

We are subject to laws, regulations and standards set by various governmental authorities around the world, including in the United States, Canada, and Mexico, including:

- those imposed by the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC, and the New York Stock Exchange (“NYSE”);
- the U.S. Foreign Corrupt Practices Act, and similar world-wide anti-bribery laws;
- health care, employment and labor laws;
- product and consumer safety laws, including those imposed by the U.S. Consumer Product Safety Commission and the Americans with Disabilities Act of 1990;
- data privacy laws, including the E.U. General Data Protection Act and the California Consumer Privacy Act;
- trade, transportation and logistics related laws, including tariffs and orders issued by Customs and Border Protection; and
- applicable environmental laws.

Our failure to comply with these various laws and regulations could have an adverse impact on our reputation, financial condition, or results of operations. In addition, these laws, regulations, and standards may change from time to time, and the complexity of the regulatory environment in which we operate may increase. Although we undertake to monitor changes in these laws, if these laws change without our knowledge, or are violated by importers, designers, manufacturers, distributors, or agents, we could experience delays in shipments and receipt of goods or be subject to fines or other penalties under the controlling regulations, any of which could negatively affect our business and results of operations. Also, our inability, or that of our vendors, to comply on a timely basis with regulatory requirements could result in product recalls, or significant fines or penalties, which in turn could adversely affect our reputation and sales, and could have an adverse effect on our results of operations. Issues with respect to the compliance of merchandise we sell with these regulations and standards, regardless of our culpability or customer concerns about such issues, could result in damage to our reputation, lost sales, uninsured product liability claims or losses, product recalls, and increased costs.

### **Risks Related to Executing Our Strategic Plan**

***Our failure to properly manage strategic initiatives in order to achieve our objectives may negatively impact our business.***

The implementation of our business strategy periodically involves the execution of complex initiatives, such as acquisitions, which may require that we make significant estimates and assumptions about a project. These projects could place significant demands on our accounting, financial, information technology, and other systems, and on our business overall. We are dependent on our management’s ability to oversee these projects effectively and implement them successfully. If our estimates and assumptions about a project are incorrect, or if we miscalculate the resources or time we need to complete a project or fail to implement a project effectively, our business and operating results could be adversely affected.

For example, our multi-channel global business model, which includes retail store, eCommerce, and wholesale sales channels, enables us to reach a broad range of consumers around the world. This strategy has and will continue to require significant investment in cross-functional operations and management focus, along with investment in supporting technologies. Omni-channel retailing is rapidly evolving and we must anticipate and meet changing customer expectations and address new developments and technology investments by our competitors. Our omni-channel retailing strategy includes implementing new technology, software, and processes to be able to fulfill customer orders from any point within our system of stores and distribution centers, which is extremely complex and may not meet customer expectations for timely and accurate deliveries. If we are unable to attract and retain employees or contract with third-parties having the specialized skills needed to support our multi-channel efforts, implement improvements to our customer-facing technology in a timely manner, allow real-time and accurate visibility to product availability when customers are ready to purchase, quickly and efficiently fulfill our customers’ orders using the fulfillment and payment methods they demand, or provide a convenient and consistent experience for our customers regardless of the ultimate sales channel, our ability to compete and our results of operations could be adversely affected. In addition, if our retail eCommerce sites or our other customer-facing technology systems do not appeal to our customers, reliably function as designed, or maintain the privacy of customer data, or if we are unable to consistently meet our brand and delivery promises to our customers, we may experience a loss of customer confidence or lost sales, or be exposed to fraudulent purchases, which could adversely affect our reputation and results of operations.

***Our success is dependent upon retaining key individuals within the organization to execute our strategic plan.***

Our ability to attract and retain qualified executive management, marketing, merchandising, design, sourcing, operations, including distribution center and retail store, and support function staffing is key to our success. We cannot be sure that we will be able to attract, retain, and motivate a sufficient number of qualified personnel in the future, or that the compensation costs of doing so will not adversely affect our operating results. We have paid special bonuses across our workforce and have increased, and may continue to increase, our employee compensation and benefits levels in response to competition, as necessary. Our inability to retain personnel could cause us to experience business disruption due to a loss of historical knowledge and a lack of business continuity and may adversely affect our results of operations, financial position, and cash flows.

***We may be unable to successfully integrate acquired businesses, and such acquisitions may fail to achieve the financial results we expected.***

From time to time we may acquire other businesses as part of our growth strategy, such as our acquisitions of the *Skip Hop* brand and our Mexican licensee in fiscal 2017, and we may partially or fully fund future acquisitions by taking on additional debt. We may be unable to successfully integrate businesses we acquire and such acquisitions may fail to achieve the financial results we expected. Integrating completed acquisitions into our existing operations, particularly larger acquisitions, involves numerous risks, including harmonizing divergent technology platforms, diversion of our management attention, failure to retain key personnel and customers, and failure of the acquired business to be financially successful. In addition, we cannot be certain of the extent of any unknown or contingent liabilities of any acquired business, including liabilities for failure to comply with applicable laws, such as those relating to product safety, anti-bribery or anti-corruption. We may incur material liabilities for past activities of acquired businesses. Also, depending on the location of the acquired business, we may be required to comply with laws and regulations that may differ from those of the jurisdictions in which our operations are currently conducted. Our inability to successfully integrate businesses we acquire, or if such businesses do not achieve the financial results we expect, may increase our costs and have a material adverse impact on our financial condition and results of operations.

#### **Risks Related to Financial Reporting, Our Debt, and Tax**

***We may not achieve sales growth plans, profitability objectives, and other assumptions that support the carrying value of our intangible assets.***

The carrying values of our goodwill and tradename assets are subject to annual impairment reviews as of the last day of each fiscal year or more frequently, if deemed necessary, due to any significant events or changes in circumstances. Estimated future cash flows used in these impairment reviews could be negatively affected if we do not achieve our sales plans and planned profitability objectives. Other assumptions that support the carrying value of these intangible assets, including a deterioration of macroeconomic conditions which would negatively affect the cost of capital and/or discount rates, could also result in impairment of the remaining asset values. For example, as of and for the first quarter of fiscal 2020, we recorded intangible asset impairments of \$26.5 million and a goodwill impairment of \$17.7 million based on forecasted financial information derived from the information reasonably available to us at the time given the unknown future impact of the COVID-19 pandemic. In addition, in the third quarter of fiscal 2019, we recorded a non-cash charge of \$30.8 million relative to the impairment of our *Skip Hop* tradename, reflecting the effect of lower sales and profitability relative to the assumptions supporting the valuation of the tradename at acquisition. Any material impairment would adversely affect our results of operations.

***We have substantial debt, which could adversely affect our financial health and our ability to obtain financing in the future and to react to changes in our business.***

As of the end of fiscal 2021, we had \$1.00 billion aggregate principal amount of debt outstanding (excluding \$4.1 million of outstanding letters of credit), and \$745.9 million of undrawn availability under our senior secured revolving credit facility after giving effect to \$4.1 million of letters of credit issued under our senior secured revolving credit facility. As a result, our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements, or general corporate or other purposes may be limited, and we may be unable to renew or refinance our debt on terms as favorable as our existing debt or at all.

If our liquidity, cash flows, and capital resources are insufficient to fund our debt service obligations and other cash requirements, we could be forced to reduce or delay investments and capital expenditures or to sell assets or operations, seek additional capital, or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations.

In addition, both our senior secured revolving credit facility and, in certain circumstances, our indenture governing the senior notes contain restrictive covenants that, subject to specified exemptions, restrict our ability to incur indebtedness, grant liens, make certain investments (including business acquisitions), pay dividends or distributions on our capital stock, engage in mergers, dispose of assets and use the proceeds from any such dispositions, and raise debt or equity capital to be used to repay other indebtedness when it becomes due. For example, provisions in our secured revolving credit facility as amended in May 2020 have the effect of restricting our ability to pay cash dividends on, or make future repurchases of, our common stock through the date we deliver our financial statements and associated certificates relating to the third quarter of fiscal 2021, and could have the effect of restricting our ability to do so thereafter. These restrictions may limit our ability to engage in acts that may be in our long-term best interests, and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. In particular, we cannot guarantee that we will have sufficient cash from operations, borrowing capacity under our debt documents, or the ability to raise additional funds in the capital markets to pursue our growth strategies as a result of these restrictions or otherwise. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility.

***We may experience fluctuations in our tax obligations and effective tax rate.***

We are subject to income taxes in federal and applicable state and local tax jurisdictions in the United States, Canada, Hong Kong, Mexico, and other foreign jurisdictions. The taxable income in each jurisdiction is affected by certain transfer prices between affiliated entities. Challenges to the arms-length nature of these transfer prices could materially affect our taxable income in a taxing jurisdiction, and therefore affect our income tax expense. We record tax expense based on our estimates of current and future payments, which include reserves for estimates of uncertain tax positions. At any time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may impact the ultimate settlement of these tax positions. As a result, there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are re-evaluated. Further, our effective tax rate in any financial statement period may be materially affected by changes in the geographic mix and level of earnings.

During the requisite service period for compensable equity-based compensation awards that we may grant to certain employees, we recognize a deferred income tax benefit on the compensation expense we incur for these awards for all employees other than our named executive officers. At time of subsequent vesting, exercise, or expiration of an award, the difference between our actual income tax deduction, if any, and the previously accrued income tax benefit is recognized in our income tax expense/benefit during the current period and can consequently raise or lower our effective tax rate for the period. Such differences are largely dependent on changes in the market price for our common stock.

We cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the United States or foreign countries upon the import or export of our products in the future, or what effect any of these actions would have, if any, on our business, financial condition, or results of operations.

Changes in regulatory, geopolitical, social or economic policies, treaties between the United States and other countries, and other factors may have a material adverse effect on our business in the future or may require us to exit a particular market or significantly modify our current business practices. For example, our taxable income may be affected by new laws, rulings, initiatives, and other events, which may affect our business, financial condition, or results of operations in future periods, including:

- the CARES Act, which was enacted in March 2020, and which significantly affects U.S. taxation by providing a retention credit and eases limitations on certain deductions including interest due to potential volatility in 2020 taxable income;
- a 2018 U.S. Supreme Court ruling, under which states may have additional ability to tax entities operating in their state, but lacking physical presence;
- mandatory country by country reporting of revenue, employees and profits, and certain international initiatives (such as the Organisation for Economic Co-operation and Development (OECD)'s Base Erosion and Profit Shifting (BEPS)) that are focused on the equity of international taxation, which may ultimately result in a worldwide minimum tax, or more defined approach around global profit allocation between related companies operating in jurisdictions with disparate income tax rates; and
- tax revenue reductions as a result of the economic impact of the pandemic, which may lead to increases in state tax rates or the expansions of their tax base.

## **GENERAL RISK**

***Quarterly cash dividends and share repurchases are subject to a number of uncertainties, and may affect the price of our common stock.***

Quarterly cash dividends and share repurchases under our share repurchase program have historically been part of our capital allocation strategy. Although we reinstated our share repurchase program in August 2021 and resumed payment of a quarterly dividend in the third quarter of fiscal 2021, in the first quarter of fiscal 2020 we suspended both our quarterly cash dividends and our share repurchase program due to the effects of the COVID-19 pandemic, and we are not required to declare dividends or make any share repurchases under our share repurchase program in the future. Decisions with respect to future dividends and share repurchases are subject to the discretion of our Board of Directors and will be based on a variety of factors, including restrictions under our secured revolving credit facility, market conditions, the price of our common stock, the nature and timing of other investment opportunities, changes in our business strategy, the terms of our financing arrangements, our outlook as to the ability to obtain financing at attractive rates, the impact on our credit ratings and the availability of domestic cash. A subsequent reduction or elimination of our cash dividend, or subsequent suspension or elimination of our share repurchase program could adversely affect the market price of our common stock. Additionally, there can be no assurance that any share repurchases will enhance shareholder value because the market price of our common stock may decline below the levels at which we repurchased shares of common stock, and short-term stock price fluctuations could reduce the program's effectiveness.



**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The following is a summary of our principal owned and leased properties as of January 1, 2022.

Our corporate headquarters occupies 278,000 square feet of leased space in a building in Atlanta, Georgia. Our lease for that space expires in April 2030. In addition, our regional headquarters for Canada occupied leased space in a building in Mississauga, Ontario through May 31, 2021; we anticipate we will relocate that office to other leased space in Mississauga, Ontario in 2022. We also occupy leased space in Hong Kong, China, which serves as our principal sourcing office in Asia. We also lease other space in Georgia, and New York, as well as in Bangladesh, Cambodia, China, Mexico, and Vietnam that, depending on the site, serves as a sourcing, sales, or administrative office. We also own a 224,000 square foot facility in Griffin, Georgia.

Our largest distribution centers, which we lease, are located in Braselton, Georgia and Stockbridge, Georgia, and are 1.1 million and 0.5 million square feet, respectively, and supports all of our operating segments. We also lease additional space in or use third-party logistics providers in California, Canada, China, Mexico and Vietnam for warehousing and distribution purposes.

We also operate the following number of leased retail stores: 751 in the United States, 186 in Canada, and 43 in Mexico. Our average remaining lease term for retail store leases in the United States, Canada, and Mexico is approximately 3.4 years, excluding renewal options.

**ITEM 3. LEGAL PROCEEDINGS**

We are 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 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Historical Stock Price and Number of Record Holders

Our common stock trades on the New York Stock Exchange (NYSE) under the trading symbol CRI. The last reported sale price per share of our common stock on February 18, 2022 was \$88.48. On that date there were 174 holders of record of our common stock.

#### Open Market Share Repurchases

The following table provides information about shares repurchased during the fourth quarter of fiscal 2021:

Period	Total number of shares purchased <sup>(1)</sup>	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs <sup>(2)</sup>	Approximate dollar value of remaining shares that can be purchased under the plans or programs <sup>(2)</sup>
October 3, 2021 through October 30, 2021	887,349	\$ 98.00	887,349	\$ 453,227,014
October 31, 2021 through November 27, 2021	454,342	\$ 104.86	453,205	\$ 405,703,430
November 28, 2021 through January 1, 2022	531,166	\$ 102.78	531,166	\$ 351,109,063
<b>Total</b>	<b>1,872,857</b>	<b>\$ 101.02</b>	<b>1,871,720</b>	

(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 1,137 shares surrendered between October 31, 2021 and November 27, 2021.

(2) In August 2021, we reinstated our previously suspended share repurchase program. As of August 19, 2021, total remaining capacity was \$650.4 million. The authorization does not have a prescribed expiration date.

#### Share Repurchase Program

On February 24, 2022, our Board of Directors authorized share repurchases up to \$1.00 billion, inclusive of approximately \$301.9 million remaining under previous authorizations.

The total remaining capacity under outstanding repurchase authorizations as of January 1, 2022 was approximately \$351.1 million, exclusive of the February 2022 share repurchase authorization, based on settled repurchase transactions. The share repurchase authorizations have no expiration dates.

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

	For the fiscal year ended		
	January 1, 2022	January 2, 2021	December 28, 2019
Number of shares repurchased	2,967,619	474,684	2,107,472
Aggregate cost of shares repurchased ( <i>dollars in thousands</i> )	\$ 299,339	\$ 45,255	\$ 196,910
Average price per share	\$ 100.87	\$ 95.34	\$ 93.43

In the third quarter of fiscal 2021, we reinstated our common stock share repurchase program. We had previously announced the suspension of our common stock share repurchase program, in connection with the COVID-19 pandemic, at the end of the first quarter in fiscal 2020. Future repurchases may occur from time to time in the open market, in privately negotiated transactions, or otherwise. The timing and amount of any repurchases will be at our discretion subject to restrictions under our revolving credit facility, market conditions, stock price, other investment priorities, and other factors.

**Dividends**

On February 24, 2022, the Company's Board of Directors authorized a quarterly cash dividend payment of \$0.75 per common share, payable on March 18, 2022 to shareholders of record at the close of business on March 8, 2022.

Our Board of Directors declared and we paid cash dividends of \$0.60 per share in the first quarter of fiscal 2020. On May 1, 2020, in connection with the COVID-19 pandemic, our Board of Directors suspended our quarterly cash dividend. As a result, the Board of Directors did not declare and we did not pay cash dividends in the second, third, or fourth quarters of fiscal 2020, or in the first quarter of fiscal 2021. The Board of Directors declared and we paid cash dividends of \$0.40 per share in each of the second and third quarters of fiscal 2021 and \$0.60 per share in the fourth quarter of fiscal 2021. Our Board of Directors will evaluate future dividend declarations based on a number of factors, including restrictions under our secured revolving credit facility, business conditions, our 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 Item 8 "Financial Statements and Supplementary Data" under Note 8, *Long-Term Debt*, to the consolidated financial statements.

**Recent Sales of Unregistered Securities**

None.

**ITEM 6. [RESERVED]**

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our results of operations and current financial condition. You should read this discussion in conjunction with our consolidated historical financial statements and notes included elsewhere in this Annual Report on Form 10-K. Our discussion of our results of operations and financial condition includes various forward-looking statements about our markets, the demand for our products, and our future results. We based these statements on assumptions that we consider reasonable. Actual results may differ materially from those suggested by our forward-looking statements for various reasons including those discussed under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K. Those risk factors expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. Except for any ongoing obligations to disclose material information as required by federal securities laws, we do not have any intention or obligation to update forward-looking statements after we file this Annual Report on Form 10-K.

For a comparison of our results for fiscal year 2020 to our results for fiscal year 2019 and other financial information related to fiscal year 2019, refer to [Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”](#) in our 2020 Annual Report on Form 10-K, filed with the SEC on February 26, 2021.

### Fiscal Years

Our fiscal year ends on the Saturday in December or January nearest December 31. Every five or six years, our fiscal year includes an additional 53<sup>rd</sup> week of results. Fiscal 2021, which ended on January 1, 2022, contained 52 weeks. Fiscal 2020, which ended on January 2, 2021, contained 53 weeks. Fiscal 2019, which ended on December 28, 2019, contained 52 weeks.

The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$32.1 million of incremental consolidated revenue. Certain expenses increased in relationship to the additional revenue from the 53<sup>rd</sup> week, while other expenses, such as fixed costs and expenses incurred on a calendar-month basis, did not increase. Consolidated gross margin for revenue in the 53<sup>rd</sup> week was slightly lower than consolidated gross margin for fiscal 2020 due to increased promotional activity during the 53<sup>rd</sup> week.

### Our Business

We are the largest branded marketer in North America of apparel exclusively for babies and young children. We own two of the most highly recognized and most trusted brand names in the children’s apparel industry, *Carter’s* and *OshKosh B’gosh* (or “*OshKosh*”). Our brand portfolio also includes *Skip Hop*, a leading baby and young child lifestyle brand, exclusive *Carter’s* brands developed for specific wholesale customers, and *little planet*, a brand focused on organic fabrics and sustainable materials.

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

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

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

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

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

Our mission is to serve the needs of all families with young children, with a vision to be the world’s favorite brands in young children’s apparel and related products. We believe our brands provide a complementary product offering and aesthetic, are each uniquely positioned in the marketplace, and offer strong value to families with young children. The baby and young children’s apparel market ages zero to 10 in the U.S. is approximately \$31 billion. In this market, our *Carter’s* brands, including our exclusive brands, hold the #1 position with approximately 10% market share and our *OshKosh* brand has approximately 1% market share as of December 2021.

Our multi-channel, global business model, which includes retail stores, eCommerce, and wholesale sales channels, as well as omni-channel capabilities in the United States and Canada, enables us to reach a broad range of consumers around the world. At

the end of fiscal 2021, our channels included 980 retail stores, approximately 18,800 wholesale locations, and eCommerce websites in North America, as well as our international wholesale accounts and licensees who operate in over 90 countries.

We have extensive experience in the young children's apparel and accessories market and focus on delivering products that satisfy our consumers' needs. Our long-term growth strategy focuses on:

- providing the best value and experience in apparel and related products for young children;
- extending the reach of our brands; and
- improving profitability.

## Segments

Our three business segments are: U.S. Retail, U.S. Wholesale, and International. These segments are our operating and reporting segments. Our U.S. Retail segment consists of revenue primarily from sales of products in the United States through our retail stores and eCommerce websites. Similarly, our U.S. Wholesale segment consists of revenue primarily from sales in the United States of products to our wholesale partners. Finally, our International segment consists of revenue primarily from sales of products outside the United States, largely through our retail stores and eCommerce websites in Canada and Mexico, and sales to our international wholesale customers and licensees. Additional financial and geographical information about our segments is contained in Item 8 "Financial Statements and Supplementary Data" and under Note 14, *Segment Information*, to the consolidated financial statements.

## Gross Profit and Gross Margin

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

## Recent Developments

During fiscal 2020, the global pandemic caused by the spread of the novel strain of coronavirus (inclusive of variants, "COVID-19") negatively affected the global economy, disrupted global supply chains, and created significant disruption of financial and retail markets, including a disruption in consumer demand for baby and children's clothing and accessories. The COVID-19 pandemic has had, and will likely continue to have adverse effects on our business, financial condition, and results of operations. There is still potential further disruption to our business due to rolling lockdowns and other precautionary measures in the event of new strains or outbreaks. We cannot estimate with certainty the length or severity of this pandemic, or the extent to which the disruption may materially impact our consolidated financial position, consolidated results of operations, and consolidated cash flows. Refer to risks set forth in "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K. In fiscal 2021, the COVID-19 pandemic continued to impact our financial results.

For instance, the COVID-19 pandemic continues to impact supply chain operations, causing delays in the production and transportation of our product. To help mitigate production delays and meet consumer demand for our products, we have leveraged our strong relationships with our suppliers to shift production schedules when possible. To help mitigate the delay in the transportation of our product and to maintain our strong relationships with our customers, we spent considerably more than typical on inbound air freight, \$33.6 million, in fiscal 2021 than in fiscal 2020. We expect these delays, and the increased costs to mitigate these delays, to continue and to adversely impact our financial results in fiscal 2022.

Additionally, in fiscal 2021 and the early part of 2022, the costs of raw materials, packaging materials, labor, energy, fuel, and other inputs necessary for the production and distribution of our products have rapidly increased. We also expect the pressures of input cost inflation to continue into 2022. We plan to offset these cost pressures through increases in the selling prices of some of our products, although these actions could have an adverse impact on demand.

Our attempts to offset these cost pressures, such as through increases in the selling prices of some of our products, may not be successful. Higher product prices may result in reductions in sales volume, as consumers may choose less expensive options, or forego some purchases altogether, during an economic downturn. To the extent that price increases are not sufficient to offset

these increased costs adequately or in a timely manner, and/or if they result in significant decreases in sales volume, our business, financial condition, or operating results may be adversely affected.

Through disciplined inventory management processes, we were largely able to avoid the high inventory charges we took in fiscal 2020 as a result of disruptions related to the COVID-19 pandemic. In fiscal 2021, we successfully sold through our initial related pack and hold at prices generally above cost by selling through our retail channels at higher gross margins compared to “off-price” channels. As a result, our pack and hold inventory decreased almost 50.0% as of the end of fiscal 2021 compared to the end of fiscal 2020. However, to manage through supply chain delays and preserve strong margins, we decided to pack and hold certain late arriving inventory until future periods.

In fiscal 2020, we announced our plan to close approximately 25% of our stores in the United States, when leases come up for renewal or where there is a kick-out provision in the lease. We closed approximately 13%, or 110, of our stores in the United States in fiscal 2021, and we expect to close approximately 30 more stores in fiscal 2022. These retail store closures are primarily related to older, less profitable stores or stores in less trafficked shopping centers. We continue to look for new, profitable retail store locations that allow us to better serve customers, including our omni-channel customers. We do not expect to close as many stores as originally planned, and we are now planning on increasing our store count in the United States in fiscal 2022, with additional net store growth planned over the next five years to serve the needs of families with young children.

We continue to innovate and design products that consumers desire. In 2021, we launched the *little planet* brand, which focuses on sustainable clothing through the sourcing of mostly organic cotton as certified under the Global Organic Textile Standard. This brand includes a wide assortment of baby apparel and accessories, sleepwear, and gift bundles.

### Fiscal Year 2021 Highlights

Unless otherwise stated, comparisons are to fiscal 2020.

- Consolidated net sales increased \$462.1 million, or 15.3%, to \$3.49 billion.
  - U.S. Retail store sales increased 29.1% primarily due to increased average selling prices per unit as a result of decreased promotions as our marketing strategy focused more on emotional marketing and increased retail store traffic in the United States as a result of progress in vaccinations and easing COVID-19 related restrictions. The passage of pandemic relief legislation in March 2021, including enhanced child tax credits, also contributed to this increase.
  - We closed approximately 110 less profitable retail stores in the United States in fiscal 2021. While these retail store closures negatively impacted total retail store sales, these closures helped improve our operating profitability. We focused on digital marketing and omni-channel capabilities in order to retain customers and to continue to serve their needs.
  - U.S. Wholesale sales increased 13.1%, primarily due to increased demand in our *Carter*’s brands, including our exclusive *Carter*’s brands. Demand from our wholesale customers has remained strong, and although we managed through supply chain and transportation delays, our sales were negatively impacted.
  - International sales increased 29.2% in fiscal 2021, primarily due to strong performance in our Canadian retail stores and eCommerce channels. Additionally, we saw significant growth in sales from our international wholesale partners as these partners recovered from business disruptions as a result of COVID-19.
  - Our omni-channel programs continued to deliver growth as a result of our investments and enhancements in these programs, which included implementing omni-channel programs in Canada during fiscal 2021.
- Gross profit increased \$348.8 million, or 26.6%, to \$1.66 billion. Gross margin increased 430 basis points (“bps”) to 47.7%, primarily driven by higher consolidated net sales across our business segments, coupled with increased average selling prices per unit. Increased inbound transportation and inbound freight costs, including increased transportation rates and \$33.6 million in inbound air freight, primarily related to the U.S. Wholesale segment, were partially offset by a release of adverse purchase commitments related to better than expected sales of inventory and utilization of fabric that were reserved for in fiscal 2020.
- SG&A expenses as a percentage of total net sales (“SG&A rate”) decreased 240 bps to 34.2%. The decrease in the SG&A rate was primarily driven by increased consolidated net sales and better leverage of retail store expenses as more sales shifted back to the retail stores. Additional drivers include decreased eCommerce fulfillment costs, decreased organizational restructuring charges, and decreased costs associated with the COVID-19 pandemic, which were partially offset by increased performance-based compensation expense. This increase in performance-based compensation, which includes bonuses, 401(k) contributions, and other incentive compensation, is an investment in

rewarding and retaining our high quality employees, who have remained focused on providing the best value and experience in young children's apparel.

- Operating income increased \$307.2 million to \$497.1 million, and operating margin increased 800 bps to 14.3%, primarily due to the factors discussed above and the recognition of \$44.2 million in goodwill and indefinite-lived tradename assets impairments charges in fiscal 2020 that did not re-occur in fiscal 2021.
- Net income increased \$230.0 million to \$339.7 million, primarily due to the factors discussed above, partially offset by an increase in income taxes.
- Diluted net income per common share increased from \$2.50 to \$7.81.
- Because of the significant adverse impact that the COVID-19 pandemic had on our operations during the first half of fiscal 2020, we believe that a better understanding of the profitability growth that has resulted from our strong product offerings, increased price realization, and productivity initiatives is obtained by comparing to our pre-pandemic results in fiscal 2019.
  - Compared to fiscal 2019, consolidated net sales decreased \$32.8 million, or 0.9%, primarily due to decreased sales of our *Carter's* brands as we focused on more profitable customers and decreased sales in our U.S. retail stores as a result of store closures throughout fiscal 2021. Despite the disruptions related to the COVID-19 pandemic, we improved on our average selling prices per unit, increased sales in our overall U.S. Retail segment partially due to investments in eCommerce and omni-channel capabilities, and saw meaningful growth in our exclusive *Carter's* brands and in our International segment.
  - Compared to fiscal 2019, gross profit increased \$153.7 million, or 10.2%, and gross margin increased 480 bps, primarily due to increased average selling prices per unit. These drivers were partially offset by the increased inbound transportation and inbound freight costs mentioned above.
  - Compared to fiscal 2019, operating income increased \$125.2 million, or 33.7%, and operating margin increased 370 bps compared to fiscal 2019, primarily due to the increase in gross margin discussed above, partially offset by a 180 bps increase in SG&A rate. The increase in SG&A rate was primarily due to increased performance-based compensation expense, partially offset by better leverage of retail store expenses and the closure of less profitable stores in fiscal 2021. Fiscal 2019 was also impacted by a \$30.8 million non-cash impairment charge related to the *Skip Hop* tradename in fiscal 2019 that did not re-occur in fiscal 2021.
- Inventories increased \$48.5 million, or 8.1%, to \$647.7 million primarily due to increased demand and increased in-transit inventory due to delays in the production and transportation of our products.
- Net cash provided by operating activities decreased \$320.2 million, primarily due to a decrease in vendor payment terms.
- In fiscal 2021, we reinstated our common stock repurchase program and resumed paying cash dividends on our common shares. Under these return of capital initiatives, we returned \$359.5 million to our shareholders, comprised of \$299.3 million in share repurchases and \$60.1 million in cash dividends. Compared to fiscal 2019, the return of capital to our shareholders increased 25.5%.

## RESULTS OF OPERATIONS

### 2021 FISCAL YEAR ENDED JANUARY 1, 2022 (52 WEEKS) COMPARED TO 2020 FISCAL YEAR ENDED JANUARY 2, 2021 (53 WEEKS)

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.

<i>(dollars in thousands, except per share data)</i>	Fiscal year ended		\$ Change	% / bps Change
	January 1, 2022 (52 weeks)	January 2, 2021 (53 weeks)		
Consolidated net sales	\$ 3,486,440	\$ 3,024,334	\$ 462,106	15.3 %
Cost of goods sold	1,832,045	1,696,224	135,821	8.0 %
Adverse purchase commitments (inventory and raw materials), net	(7,879)	14,668	(22,547)	nm
Gross profit	1,662,274	1,313,442	348,832	26.6 %
<i>Gross profit as % of consolidated net sales</i>	47.7 %	43.4 %		430 bps
Royalty income, net	28,681	26,276	2,405	9.2 %
<i>Royalty income as % of consolidated net sales</i>	0.8 %	0.9 %		(10) bps
Selling, general, and administrative expenses	1,193,876	1,105,607	88,269	8.0 %
<i>SG&amp;A expenses as % of consolidated net sales</i>	34.2 %	36.6 %		(240) bps
Goodwill impairment	—	17,742	(17,742)	nm
Intangible asset impairment	—	26,500	(26,500)	nm
Operating income	497,079	189,869	307,210	>100%
<i>Operating income as % of consolidated net sales</i>	14.3 %	6.3 %		800 bps
Interest expense	60,294	56,062	4,232	7.5 %
Interest income	(1,096)	(1,515)	419	(27.7)%
Other expense, net	(409)	338	(747)	nm
Income before income taxes	438,290	134,984	303,306	>100%
Income tax provision	98,542	25,267	73,275	>100%
<i>Effective tax rate<sup>(*)</sup></i>	22.5 %	18.7 %		380 bps
Net income	\$ 339,748	\$ 109,717	\$ 230,031	>100%
Basic net income per common share	\$ 7.83	\$ 2.51	\$ 5.32	>100%
Diluted net income per common share	\$ 7.81	\$ 2.50	\$ 5.31	>100%
Dividend declared and paid per common share	\$ 1.40	\$ 0.60	\$ 0.80	>100%

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

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

### Consolidated Net Sales

Consolidated net sales increased \$462.1 million, or 15.3%, to \$3.49 billion in fiscal 2021. This increase was primarily driven by increased average selling prices per unit as a result of decreased promotions and increased retail store traffic. The passage of pandemic relief legislation in March 2021, including enhanced child tax credits, strong consumer reaction to our product offerings, increased demand with many of our wholesale customers, increased net sales in Canada as we continue to gain market share, and increased demand with our international wholesale partners as these partners began to recover from COVID-19 business disruptions also contributed to this increase. Higher sales in these channels were partially offset by decreased net sales in our domestic eCommerce channel as customer traffic rebounded in our stores. Fiscal 2020 was adversely impacted by the temporary closure of our retail stores in March, April, and May 2020 and reduced demand in our other businesses as a result of disruptions related to COVID-19.



The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$32.1 million in additional consolidated net sales. Changes in foreign currency exchange rates used for translation in fiscal 2021, as compared to fiscal 2020, had a favorable effect on our consolidated net sales of approximately \$20.0 million.

### **Gross Profit and Gross Margin**

Our consolidated gross profit increased \$348.8 million, or 26.6%, to \$1.66 billion in fiscal 2021. Consolidated gross margin increased 430 bps to 47.7%.

The increase in consolidated gross profit and gross margin was primarily driven by higher consolidated net sales across our business segments, coupled with increased average selling prices per unit. Increased inbound transportation and inbound freight costs, including increased transportation rates and \$33.6 million in inbound air freight, primarily related to the U.S. Wholesale segment, were partially offset by a release of adverse purchase commitments related to better than expected sales of inventory and utilization of fabric that were reserved in fiscal 2020. As a result of labor shortages, supply chain constraints, and inflation, we expect the increase in transportation rates to continue in fiscal 2022.

### **Royalty Income**

Royalty income increased \$2.4 million, or 9.2%, to \$28.7 million in fiscal 2021, primarily due to increased licensee sales volume as our licensees recovered from business disruptions related to COVID-19.

### **Selling, General, and Administrative Expenses**

Consolidated SG&A expenses increased \$88.3 million, or 8.0%, to \$1.19 billion in fiscal 2021 while the SG&A rate decreased approximately 240 bps to 34.2%. The decrease in the SG&A rate was primarily driven by increased consolidated net sales and better leverage of retail store expenses as sales in retail stores rebounded from COVID-19 related disruptions in fiscal 2020. Additional drivers include decreased eCommerce fulfillment costs, decreased organizational restructuring charges, and decreased costs associated with the COVID-19 pandemic, which were partially offset by increased performance-based compensation expense. Organizational restructuring charges were \$2.4 million in fiscal 2021 compared to \$16.6 million in fiscal 2020.

### **Goodwill Impairment**

During the first quarter of fiscal 2020, the Company's market capitalization declined, and actual and projected sales and profitability decreased as a result of disruptions related to COVID-19. Based on these events, we concluded that a triggering event occurred, and we performed an interim quantitative impairment test as of March 28, 2020. Based upon the results of the impairment test, we recognized a goodwill impairment charge of \$17.7 million during the first quarter of fiscal 2020 which was recorded to the Other International reporting unit in the International segment. This charge did not reoccur in fiscal 2021.

### **Intangible Asset Impairment**

During the first quarter of fiscal 2020, actual and projected sales and profitability decreased as a result of disruptions related to COVID-19. Based on these events, we concluded that a triggering event occurred, and we performed an interim quantitative impairment test as of March 28, 2020. Based upon the results of the impairment test, we recognized non-cash impairment charges of \$15.5 million and \$11.0 million during the first quarter of fiscal 2020 related to our *OshKosh* and *Skip Hop* tradename assets that were recorded in connection with the acquisition of OshKosh B'Gosh, Inc. in July 2005 and Skip Hop Holdings, Inc. in February 2017, respectively. This charge did not reoccur in fiscal 2021.

### **Operating Income**

Consolidated operating income increased \$307.2 million to \$497.1 million in fiscal 2021 and increased as a percentage of net sales by approximately 800 bps to 14.3%, primarily due to the factors discussed above.

### **Interest Expense**

Interest expense increased \$4.2 million, or 7.5%, to \$60.3 million in fiscal 2021. Weighted-average borrowings for fiscal 2021 were \$1.00 billion at an effective interest rate of 6.02%, compared to weighted-average borrowings for fiscal 2020 of \$1.03 billion at an effective interest rate of 5.39%. The decrease in weighted-average borrowings was attributable to the absence of borrowings under our secured revolving credit facility during all of fiscal 2021, partially offset by the issuance of \$500 million in principal amount of senior notes in May 2020. The increase in the effective interest rate was primarily due to the interest rate differential between our secured revolving credit facility and our senior notes.

## Income Taxes

Our consolidated income tax provision increased \$73.3 million to \$98.5 million in fiscal 2021 and the effective tax rate increased approximately 380 bps to 22.5% in fiscal 2021 from 18.7% in fiscal 2020. The increased effective tax rate in fiscal 2021 primarily reflected a greater proportion of our income earned in the U.S., which has a higher tax rate than other jurisdictions income is generated.

## Net Income

Our consolidated net income increased \$230.0 million to \$339.7 million in fiscal 2021, due to the factors previously discussed.

## Results by Segment - Fiscal Year 2021 (52 Weeks) compared to Fiscal Year 2020 (53 Weeks)

The following table summarizes net sales and operating income, by segment, for the fiscal years ended January 1, 2022 and January 2, 2021:

(dollars in thousands)	Fiscal year ended					
	January 1, 2022 (52 weeks)	% of consolidated net sales	January 2, 2021 (53 weeks)	% of consolidated net sales	\$ Change	% Change
<b>Net sales:</b>						
U.S. Retail	\$ 1,899,262	54.5 %	\$ 1,671,644	55.3 %	\$ 227,618	13.6 %
U.S. Wholesale	1,126,415	32.3 %	996,088	32.9 %	130,327	13.1 %
International	460,763	13.2 %	356,602	11.8 %	104,161	29.2 %
Consolidated net sales	<u>\$ 3,486,440</u>	<u>100.0 %</u>	<u>\$ 3,024,334</u>	<u>100.0 %</u>	<u>\$ 462,106</u>	<u>15.3 %</u>
		<b>% of segment net sales</b>		<b>% of segment net sales</b>		
<b>Operating income (loss):</b>						
U.S. Retail	\$ 368,221	19.4 %	\$ 146,806	8.8 %	\$ 221,415	>100%
U.S. Wholesale	195,369	17.3 %	141,456	14.2 %	53,913	38.1 %
International	63,806	13.8 %	(1,224)	(0.3)%	65,030	>100%
Unallocated corporate expenses	(130,317)	n/a	(97,169)	n/a	(33,148)	(34.1)%
Consolidated operating income	<u>\$ 497,079</u>	<u>14.3 %</u>	<u>\$ 189,869</u>	<u>6.3 %</u>	<u>\$ 307,210</u>	<u>&gt;100%</u>

## Comparable Sales Metrics

As a result of the temporary store closures in fiscal 2020 in response to COVID-19, we have not included a discussion of fiscal 2021 retail comparable sales as we do not believe it is a meaningful metric during the period.

## U.S. Retail

U.S. Retail segment net sales increased \$227.6 million, or 13.6%, to \$1.90 billion in fiscal 2021. The increase in net sales was primarily driven by increased retail store traffic due to more stores being open throughout fiscal 2021 compared to fiscal 2020 and increased average selling prices per unit as a result of decreased promotions. These drivers were partially offset by decreased net sales through our eCommerce channel. The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$18.2 million in additional sales to the U.S. Retail segment.

As of January 1, 2022, we operated 751 retail stores in the U.S. compared to 864 in fiscal 2020. All stores were open as of January 1, 2022.

U.S. Retail segment operating income increased \$221.4 million to \$368.2 million, and operating margin increased 1,060 bps to 19.4%. The primary drivers of the increase in operating margin were a 600 bps increase in gross margin and a 390 bps decrease in SG&A rate. The increase in gross margin was primarily due to increased average selling prices per unit and a release of adverse purchase commitment reserves related to better than expected sales of inventory and utilization of fabric that were reserved in fiscal 2020. The decrease in the SG&A rate was primarily due to increased net sales, better leverage of retail store expenses due to increased store traffic, and decreased COVID-19 related charges, partially offset by increased performance-based compensation expense. Additional drivers include operating lease assets impairment charges in fiscal 2020 that did not reoccur in fiscal 2021 and decreased organizational restructuring expenses, partially offset by increased marketing expense. The

increase in operating margin was also impacted by intangible assets impairment charges in fiscal 2020 that did not reoccur in fiscal 2021.

### ***U.S. Wholesale***

U.S. Wholesale segment net sales increased \$130.3 million, or 13.1%, to \$1.13 billion in fiscal 2021, primarily due to increased demand for our *Carter's* brands, including our exclusive *Carter's* brands. The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$10.6 million in additional sales to the U.S. Wholesale segment.

U.S. Wholesale segment operating income increased \$53.9 million, or 38.1%, to \$195.4 million, and operating margin increased 310 bps to 17.3%. The primary drivers of the increase in operating margin were a 130 bps increase in gross margin, a 10 bps increase in royalty income, and a 100 bps decrease in SG&A rate. The increase in gross margin was primarily due to favorable customer mix, decreased inventory provisions, and a release of adverse purchase commitment reserves related to better than expected sales of inventory and utilization of fabric that were reserved in fiscal 2020, offset by increased inbound transportation and inbound freight costs. Additional drivers include increased average selling prices per unit and decreased product costs. The increase in royalty income was primarily due to increased licensee sales volume as our licensees recovered from business disruptions related to COVID-19. The decrease in the SG&A rate was primarily due to increased sales, decreased COVID-19 related charges, and decreased bad debt expense, partially offset by increased performance-based compensation expense and increased marketing expense. The increase in operating margin was also impacted by intangible assets impairment charges in fiscal 2020 that did not reoccur in fiscal 2021.

### ***International***

International segment net sales increased \$104.2 million, or 29.2%, to \$460.8 million in fiscal 2021. Changes in foreign currency exchange rates, primarily between the U.S. dollar and the Canadian dollar, had a \$20.0 million favorable effect on International segment net sales. The increase in net sales was primarily driven by increased retail store traffic in Canada, growth in our Canadian eCommerce business due to increased demand and the introduction of omni-channel capabilities, and increased sales to our international partners. The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$3.3 million in additional sales to the International segment.

As of January 1, 2022, we operated 186 retail stores in Canada, compared to 193 at the end of fiscal 2020. As of January 1, 2022, we operated 43 retail stores in Mexico, compared to 44 in fiscal 2020. Due to COVID-19 related disruptions, we temporarily closed a number of retail stores and reduced retail store operating hours throughout fiscal 2021.

International segment operating income was \$63.8 million in fiscal 2021 compared to an operating loss of \$1.2 million in fiscal 2020. Operating margin increased 1,410 bps to 13.8%. The increase in the operating margin was primarily attributable to a 440 bps increase in gross margin and a 400 bps decrease in the SG&A rate. The increase in gross margin was primarily due to increased average selling prices per unit and a release of adverse purchase commitment reserves related to better than expected sales of inventory and utilization of fabric that were reserved in fiscal 2020. The decrease in the SG&A rate was primarily due to increased net sales, better leverage of retail store expenses due to increased store traffic, and decreased COVID-19 related charges, partially offset by increased performance-based compensation expense. The operating loss in fiscal 2020 also included a \$17.7 million goodwill impairment charge and intangible assets impairment charges in fiscal 2020 that did not reoccur in fiscal 2021.

### ***Unallocated Corporate Expenses***

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

Unallocated corporate expenses increased \$33.1 million, or 34.1%, to \$130.3 million in fiscal 2021. Unallocated corporate expenses, as a percentage of consolidated net sales, increased 50 bps to 3.7%. The increase as a percentage of consolidated net sales was primarily due to increased performance-based compensation expense, partially offset by increased net sales.

## **FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY**

Our ongoing cash needs are primarily for working capital, capital expenditures, interest on debt, and the return of capital to our shareholders. We expect that our primary sources of liquidity will be cash and cash equivalents on hand, cash flow from operations, and available borrowing capacity under our secured revolving credit facility. We believe that our sources of liquidity will fund our projected requirements for at least the next twelve months. However, these sources of liquidity may be

affected by the COVID-19 pandemic and other events described in our risk factors, as discussed under the heading “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

As discussed under the heading “Recent Developments” in Part II, Item 7 of this Annual Report on Form 10-K, we expect delays in the production and transportation of our product, and the increased costs to mitigate these delays, to continue and to adversely impact our financial results in fiscal 2022. We cannot predict the timing and amount of such impact.

As of January 1, 2022, we had approximately \$984.3 million of cash and cash equivalents held at major financial institutions, including approximately \$112.7 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 January 1, 2022 were \$231.4 million compared to \$186.5 million at January 2, 2021. The increase of \$44.8 million, or 24.0%, primarily reflects increased wholesale customer demand and the timing of wholesale customer receipts, partially offset by improved days sales outstanding.

Inventories at January 1, 2022 were \$647.7 million compared to \$599.3 million at January 2, 2021. The increase of \$48.5 million, or 8.1%, was primarily due to increased demand and increased in-transit inventory due to delays in production and transportation of our products, partially offset by decreased pack and hold inventory.

Accounts payable at January 1, 2022 were \$407.0 million compared to \$472.1 million at January 2, 2021. The decrease of \$65.1 million, or 13.8%, is primarily due a decrease in vendor payment terms, which had been extended in fiscal 2020 in response to the COVID-19 pandemic.

### **Cash Flow**

#### ***Net Cash Provided by Operating Activities***

Net cash provided by operating activities for fiscal 2021 was \$268.3 million, compared to \$588.5 million in fiscal 2020. Our cash flow provided by operating activities is driven by net income and changes in our working capital. The decrease in net cash provided by operating activities was primarily due to a decrease in vendor payment terms, partially offset by increased profitability.

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 a participating financial institution at their discretion. 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 participating financial institutions for suppliers who voluntarily participate in the SCF program are included in Accounts payable on our consolidated statement balance sheets. Payments made under the SCF program, like payments on other Accounts payable, are a reduction to our operating cash flow.

#### ***Net Cash Used in Investing Activities***

Net cash used in investing activities was \$32.4 million in fiscal 2021, compared to \$31.5 million in fiscal 2020. This increase in net cash used in investing activities is primarily due to increased capital expenditures, partially offset by increased proceeds from sales of investments in marketable securities. Capital expenditures in fiscal 2021 primarily included \$22.6 million for information technology initiatives, \$9.1 million for omni-channel initiatives and our U.S. and international retail store openings and remodels, and \$4.2 million for our distribution facilities.

We plan to invest approximately \$65 million in capital expenditures in fiscal 2022, which primarily relates to U.S. and international retail store openings and remodels, strategic information technology initiatives, and investments in our distribution facilities.

#### ***Net Cash (Used in) Provided by Financing Activities***

Net cash used in financing activities was \$352.7 million in fiscal 2021, compared to net cash provided by financing activities of \$324.8 million in fiscal 2020. This change in cash flow from financing activities was primarily due to an issuance of \$500

million in principal amount of senior notes in May 2020, which did not reoccur in fiscal 2021, and an increase in the return of capital to our shareholders through common stock share repurchases and cash dividends in fiscal 2021.

### **Secured Revolving Credit Facility**

As of January 1, 2022, we had no outstanding borrowings under our secured revolving credit facility, exclusive of \$4.1 million of outstanding letters of credit. As of January 2, 2021, we had no outstanding borrowings under our secured revolving credit facility, exclusive of \$5.0 million of outstanding letters of credit. As of January 1, 2022 and January 2, 2021, there was approximately \$745.9 million and \$745.0 million available for future borrowing, respectively. Any outstanding borrowings under our secured revolving credit facility are classified as non-current liabilities on our consolidated balance sheets due to contractual repayment terms under the credit facility. However, these repayment terms also allow us to repay some or all of the outstanding borrowings at any time.

### **Terms of the Secured Revolving Credit Facility**

Our secured revolving credit facility provides for an aggregate credit line of \$750 million which includes a \$650 million U.S. dollar facility and a \$100 million multicurrency facility denominated in U.S. dollars, Canadian dollars, Euros, Pounds Sterling, or other currencies agreed to by the applicable lenders. The credit facility matures on September 21, 2023. 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.

On May 4, 2020, through our wholly owned subsidiary, The William Carter Company ("TWCC"), we entered into Amendment No. 2 to our fourth amended and restated credit agreement ("Amendment No. 2"). Amendment No. 2 provided for, among other things, access to additional capital and increased flexibility under financial maintenance covenants, which we sought in part due to the unforeseen negative effects of the COVID-19 pandemic.

On April 21, 2021, through our wholly owned subsidiary, TWCC, we entered into Amendment No. 3 to our fourth amended and restated credit agreement ("Amendment No. 3"). Among other things, Amendment No. 3 provided that through the remainder of the Restricted Period, which ended on the date the we delivered our financial statements and associated certificates relating to the third quarter of fiscal 2021:

- we must have maintained a minimum liquidity (defined as cash-on-hand plus availability under the secured revolving credit facility) on the last day of each fiscal month of at least \$950 million (the "Revised Liquidity Requirement"), which was increased by \$250 million from \$700 million; and
- we were permitted to make additional restricted payments, including to pay cash dividends and repurchase common stock, in an amount not to exceed \$250 million, provided that (a) no default or event of default will have occurred and be continuing or would result from the payment and (b) after giving effect to the payment, we would have been in compliance with Revised Liquidity Requirement as of the last day of the most recent month.

Approximately \$0.2 million, including both bank fees and other third-party expenses, has been capitalized in connection with Amendment No. 3 and is being amortized over the remaining term of the secured revolving credit facility.

As of January 1, 2022, our secured revolving credit facility returned to its pre-COVID 19 terms that were in effect prior to Amendment No. 2.

There were no weighted-average borrowings for fiscal 2021 compared to \$212.2 million of weighted-average borrowings for fiscal 2020. The decrease in weighted-average borrowings for fiscal 2021 was due to the absence of borrowings under our secured revolving credit facility during fiscal 2021.

As of January 1, 2022, the interest rate margins applicable to the amended revolving credit facility were 1.125% for LIBOR rate and 0.125% for base rate loans. The effective interest rate for borrowings under the secured revolving credit facility during fiscal 2020 was 2.84%.

As of January 1, 2022, we were in compliance with our financial and other covenants under our secured revolving credit facility.

### **Senior Notes**

As of January 1, 2022, TWCC had \$500.0 million principal amount of senior notes outstanding, bearing interest at a rate of

5.500% per annum, and maturing on May 15, 2025, and \$500.0 million principal amount of senior notes outstanding, bearing interest at a rate of 5.625% per annum, and maturing on March 15, 2027. On our consolidated balance sheet, the \$1.00 billion of outstanding senior notes as of January 1, 2022 is reported net of \$8.6 million of unamortized issuance-related debt costs, and the \$1.00 billion of outstanding senior notes as of January 2, 2021 is reported net of \$10.5 million of unamortized issuance-related debt costs.

The senior notes mentioned above are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. and certain domestic subsidiaries of TWCC. The guarantor subsidiaries are 100% owned directly or indirectly by Carter's, Inc. and all guarantees are joint, several and unconditional.

The indentures governing the senior notes provides that upon the occurrence of specific kinds of changes of control, unless a redemption notice with respect to all the outstanding senior notes has previously or concurrently been mailed or delivered, we will be required to make an offer to purchase the senior notes at 101% of their principal amount, plus accrued and unpaid interest to (but excluding) the date of purchase.

The indentures governing the senior notes include a number of covenants, that, among other things and subject to certain exceptions, restrict TWCC's ability and the ability of certain of its subsidiaries to: (a) incur certain types of indebtedness that is secured by a lien; (b) enter into certain sale and leaseback transactions; and (c) consolidate or merge with or into, or sell substantially all of the issuer's assets to, another person, under certain circumstances. Terms of the notes contain customary affirmative covenants and provide for events of default which, if certain of them occur, would permit the trustee or the holders of at least 25.0% in principal amount of the then total outstanding senior notes to declare all amounts owing under the notes to be due and payable. Carter's, Inc. is not subject to these covenants.

### Fiscal 2022 Debt Extinguishment

We intend to redeem our 5.500% senior notes in the first quarter of fiscal 2022, subject to market conditions, using cash on hand. Redemption of the 5.500% senior notes will require payment of an early redemption premium, which along with transaction fees and unamortized debt issuance costs is estimated to result in a loss on extinguishment of debt of approximately \$21 million in the first quarter of fiscal 2022.

### Share Repurchases

On February 24, 2022, our Board of Directors authorized share repurchases up to \$1.00 billion, inclusive of approximately \$301.9 million remaining under previous authorizations.

Open-market repurchases of our common stock during fiscal years 2021 and 2020 were as follows:

	For the fiscal year ended	
	January 1, 2022	January 2, 2021
Number of shares repurchased	2,967,619	474,684
Aggregate cost of shares repurchased ( <i>dollars in thousands</i> )	\$ 299,339	\$ 45,255
Average price per share	\$ 100.87	\$ 95.34

The total remaining capacity under outstanding repurchase authorizations as of January 1, 2022 was approximately \$351.1 million, exclusive of the February 2022 share repurchase authorization, based on settled repurchase transactions. The share repurchase authorizations have no expiration dates.

In the third quarter of fiscal 2021, we reinstated our common stock share repurchase program. We had previously announced the suspension of our common stock share repurchase program, in connection with the COVID-19 pandemic, at the end of the first quarter in fiscal 2020. Future repurchases may occur from time to time in the open market, in privately negotiated transactions, or otherwise. The timing and amount of any repurchases will be at our discretion subject to restrictions under our revolving credit facility, market conditions, stock price, other investment priorities, and other factors.

### Dividends

On February 24, 2022, the Company's Board of Directors authorized a quarterly cash dividend payment of \$0.75 per common share, payable on March 18, 2022 to shareholders of record at the close of business on March 8, 2022.

Our Board of Directors declared and we paid cash dividends of \$0.60 per share in the first quarter of fiscal 2020. On May 1, 2020, in connection with the COVID-19 pandemic, our Board of Directors suspended our quarterly cash dividend. As a result,

the Board of Directors did not declare and we did not pay cash dividends in the second, third, or fourth quarters of fiscal 2020, or in the first quarter of fiscal 2021. The Board of Directors declared and we paid cash dividends of \$0.40 per share in each of the second and third quarters of fiscal 2021 and \$0.60 per share in the fourth quarter of fiscal 2021. Our Board of Directors will evaluate future dividend declarations based on a number of factors, including restrictions under our secured revolving credit facility, business conditions, our 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 Item 8 “Financial Statements and Supplementary Data” under Note 8, *Long-Term Debt*, to the consolidated financial statements.

### Commitments

The following table summarizes as of January 1, 2022, the maturity or expiration dates of mandatory contractual obligations and commitments for the following fiscal years:

<i>(dollars in thousands)</i>	2022	2023	2024	2025	2026	Thereafter	Total
Long-term debt	\$ —	\$ —	\$ —	\$ 500,000	\$ —	\$ 500,000	\$ 1,000,000
Interest on debt <sup>(1)</sup>	55,625	55,625	55,625	41,875	28,125	14,063	250,938
Operating leases <sup>(2)</sup>	164,338	141,248	113,584	81,206	57,194	82,197	639,767
Other	231	211	—	—	—	—	442
Total financial obligations	\$ 220,194	\$ 197,084	\$ 169,209	\$ 623,081	\$ 85,319	\$ 596,260	\$ 1,891,147
Letters of credit	4,059	—	—	—	—	—	4,059
Total financial obligations and commitments <sup>(3)(4)</sup>	\$ 224,253	\$ 197,084	\$ 169,209	\$ 623,081	\$ 85,319	\$ 596,260	\$ 1,895,206

(1) Reflects: i) a fixed interest rate of 5.500% for the senior notes due 2025, and ii) a fixed interest rate of 5.625% for the senior notes due 2027.

(2) The minimum lease obligation includes all lease and non-lease components that were included in the measurement of the lease liability.

(3) The table above excludes our reserves for income taxes, as we are unable to reasonably predict the ultimate amount or timing of settlement.

(4) The table above excludes purchase obligations. Our estimate as of January 1, 2022 for commitments to purchase inventory in the normal course of business, which are cancellable (with or without penalty, depending on the stage of production) and span a period of one year or less, was between \$550 million and \$650 million.

(5) The table above excludes any potential future Company funding for obligations under our defined benefit retirement plans. Our estimates of such obligations as of January 1, 2022 have been determined in accordance with U.S. GAAP and are included in other current liabilities and other long-term liabilities on our consolidated balance sheet, as described in Item 8 “Financial Statements and Supplementary Data” under Note 11, Employee Benefit Plans, to the consolidated financial statements.

### Liquidity Outlook

Based on our current outlook, we believe that cash generated from operations and available cash, together with amounts available under our secured revolving credit facility, will be adequate to meet our working capital needs and capital expenditure requirements for our longer-term strategic plans, although no assurance can be given in this regard.

### 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 significant accounting policies are described in our accompanying consolidated financial statements. The following discussion addresses our critical accounting policies and estimates, which are those policies that require management’s most

difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

### **Revenue Recognition and Accounts Receivable Allowance**

Our revenues, which are reported as Net sales, consist of sales to customers, net of returns, discounts, chargebacks, and cooperative advertising. We recognize revenue when (or as) the performance obligation is satisfied. Generally, the performance obligation is satisfied when we transfer control of the goods to the customer.

Our retail store revenues, also reported as Net sales, are recognized at the point of sale. Retail sales through our on-line channels are recognized at time of delivery to the customer. We recognize retail sales returns at the time of transaction by recording adjustments to both revenue and cost of goods sold. Additionally, we maintain an asset, representing the goods we expect to receive from the customer, and a liability for estimated sales returns. There are no accounts receivable associated with our retail customers.

Our accounts receivable reserves for wholesale customers include an allowance for expected credit losses and an allowance for chargebacks. The allowance for expected credit losses includes estimated losses resulting from the inability of our customers to make payments. If the financial condition of a customer were to deteriorate, resulting in an impairment of its ability to make payments, an additional allowance could be required. Past due balances over 90 days are reviewed individually for collectibility. Our credit and collections department reviews all other balances regularly. Account balances are charged off against the allowance when it is probable that the receivable will not be recovered. Provisions for the allowance for expected credit losses are reflected in Selling, general and administrative expenses on our consolidated statement of operations and provisions for chargebacks are reflected as a reduction in Net sales on our consolidated statement of operations.

Cooperative advertising arrangements reimburse customers for marketing activities for certain of our products. We record these reimbursements under cooperative advertising arrangements with certain of our major wholesale customers at fair value. Fair value is determined based upon, among other factors, comparable market analysis for similar advertisements. We have included the fair value of these arrangements of approximately \$0.2 million for fiscal 2021, \$0.5 million for fiscal 2020, and \$3.1 million for fiscal 2019 as a component of SG&A expenses on our consolidated statements of operations, rather than as a reduction of net sales. Amounts determined to be in excess of the fair value of these arrangements are recorded as a reduction of net sales.

Except in very limited circumstances, we do not allow our wholesale customers to return goods to us.

### **Inventory**

Our inventories, which consist primarily of finished goods, are stated approximately at the lower of cost (first-in, first-out basis for wholesale inventory and average cost for retail inventories) or net realizable value. Obsolete, damaged, and excess inventory is carried at net realizable value by establishing reserves after assessing historical recovery rates, current market conditions, and future marketing and sales plans. Rebates, discounts and other cash consideration received from a vendor related to inventory purchases are reflected as reductions in the cost of the related inventory item, and are therefore reflected in cost of goods sold when the related inventory item is sold. The Company also has minimum inventory purchase commitments, including fabric commitments, with our suppliers which secure a portion of our raw material needs for future seasons. In the event anticipated market sales prices are lower than these committed costs or customer orders are canceled, the Company records a reserve for these adverse inventory and fabric purchase commitments. Increases to this reserve are reflected in Costs of goods sold on our consolidated statement of operations. Due to the materiality of these charges in fiscal 2020, these charges have been presented separately on our consolidated statement of operations.

### **Goodwill and Tradename**

The carrying values of goodwill and indefinite-lived tradename assets are subject to annual impairment reviews as of the last day of each fiscal year. Between annual assessments, impairment reviews may also be triggered by any significant events or changes in circumstances affecting our business. Factors affecting such impairment reviews include the continued market acceptance of our current products and the development of new products. We use qualitative and quantitative methods to assess for impairment, including the use of discounted cash flows (“income approach”) and relevant data from guideline public companies (“market approach”).

We perform impairment tests of goodwill at the reporting unit level. A qualitative assessment determines if it is “more likely than not” that the fair value of the reporting unit is less than its carrying value. Qualitative factors may include, but are not limited to: macroeconomic conditions; industry and market considerations; cost factors that may have a negative effect on earnings; overall financial performance; and other relevant entity-specific events. If the results of a qualitative test determine



that it is “more likely than not” that the fair value of a reporting unit is less than its carrying value, then a goodwill impairment test using quantitative assessments must be performed. If it is determined that it is not “more likely than not” that the fair value of the reporting unit is less than its carrying value, then no further testing is required.

Under a quantitative assessment for goodwill, we compare the fair value of a reporting unit to its carrying value, including goodwill. We use the income approach and the market approach to determine the fair value of a reporting unit. The assumptions used in these approaches include revenue growth and profitability, terminal values, discount rates, and an implied control premium. These assumptions are consistent with those we believe hypothetical marketplace participants would use. An impairment is recorded for any excess carrying value above the fair value of the reporting unit, not to exceed the carrying value of goodwill.

A tradename is considered impaired if the estimated fair value of the tradename is less than the carrying amount. Impairment reviews for an indefinite-lived tradename can be conducted using qualitative analysis, and if necessary, by a quantitative impairment test. If a tradename is considered impaired, we recognize a loss equal to the difference between the carrying amount and the estimated fair value of the tradename. The process of estimating the fair value of a tradename incorporates the relief-from-royalty method, which requires us to make assumptions and to apply judgment, including forecasting revenue growth rates and selecting the appropriate terminal value, discount rate, and royalty rate.

A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analysis, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, we are required to ensure that assumptions used to determine fair value in our analysis are consistent with the assumptions a hypothetical marketplace participant would use. As a result, the cost of capital and/or discount rates used in our analysis may increase or decrease based on market conditions and trends, regardless of whether our actual cost of capital has changed. Therefore, we may recognize an impairment of an intangible asset or assets even though realized actual cash flows are approximately equal to or greater than our previously forecast amounts.

Based upon our most recent annual assessment, performed as of January 1, 2022, using a qualitative assessment, there were no impairments in the values of goodwill or indefinite-lived or definite-lived intangible assets.

In the first quarter of fiscal 2020, the Company concluded that impairment indicators existed due to the decrease in the Company’s market capitalization, lower than expected actual sales, and lower projected sales and profitability, primarily due to the impacts from the outbreak of COVID-19. As a result, during the first quarter of fiscal 2020, the Company conducted interim quantitative impairment assessments of 1) the goodwill ascribed to the Other International reporting unit recorded in connection with the allocation of goodwill to the newly created International segment as a result of the acquisition of Bonnie Togs in 2011 and 2) on the value of the Company’s indefinite-lived *OshKosh* and *Skip Hop* tradename assets that was recorded in connection with the acquisition of OshKosh B’Gosh Inc. in July 2005 and Skip Hop Holdings, Inc. in February 2017, respectively.

The goodwill impairment assessment for the Other International reporting unit was performed in accordance with ASC 350, “*Intangibles--Goodwill and Other*” (“ASC 350”) and compares the carrying value of the Other International reporting unit to its fair value. Consistent with prior practice, the fair value of the Other International reporting unit was determined using discounted cash flows (“income approach”) and relevant data from guideline public companies (“market approach”). As a result of this assessment, a goodwill impairment charge of \$17.7 million was recorded to our Other International reporting unit in the International segment during the first quarter of fiscal 2020. The goodwill impairment charge recorded on our Other International reporting unit included charges of \$9.4 million, \$5.2 million, and \$3.1 million to Skip Hop, Carter’s, and Carter’s Mexico goodwill, respectively. The carrying value of the Company’s goodwill for the Other International reporting unit as of January 1, 2022 was \$11.7 million.

The *OshKosh* and *Skip Hop* indefinite-lived tradename asset assessments were performed in accordance with ASC 350 and were determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of not having to license the tradename from another owner. Based on these assessments, charges of \$15.5 million and \$11.0 million were recorded during the first quarter of fiscal 2020 on our indefinite-lived *OshKosh* and *Skip Hop* tradename assets, respectively. The charge recorded on our indefinite-lived *OshKosh* tradename asset included charges of \$13.6 million, \$1.6 million, and \$0.3 million in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *OshKosh* tradename asset. The charge recorded on our indefinite-lived *Skip Hop* tradename asset included charges of \$6.8 million, \$3.7 million, and \$0.5 million 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 values of the Company’s indefinite-lived *OshKosh* and *Skip Hop* tradename assets as of January 1, 2022 were \$70.0 million and \$15.0 million, respectively.

## **Accrued Expenses**

Accrued expenses for workers' compensation, incentive compensation, health insurance, 401(k), and other outstanding obligations are assessed based on actual commitments, statistical trends, and/or estimates based on projections and current expectations, and these estimates are updated periodically as additional information becomes available.

## **Loss Contingencies**

We record accruals for various contingencies including legal exposures as they arise in the normal course of business. We determine whether to disclose and accrue for loss contingencies based on an assessment of whether the risk of loss is remote, reasonably possible, or probable. Our assessment is developed in consultation with our internal and external counsel and other advisers and is based on an analysis of possible outcomes under various strategies. Loss contingency assumptions involve judgments that are inherently subjective and can involve matters that are in litigation, which, by their nature are unpredictable. We believe that our assessment of the probability of loss contingencies is reasonable.

## **Accounting For Income Taxes**

As part of the process of preparing the accompanying consolidated financial statements, we are required to estimate our actual current tax exposure (state, federal, and foreign). We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. If it is more likely than not that a tax position would not be sustained, then no tax benefit would be recognized. Where applicable, associated interest related to unrecognized tax benefits is recognized as a component of interest expense and associated penalties related to unrecognized tax benefits are recognized as a component of income tax expense.

We also assess permanent and temporary differences resulting from differing basis and treatment of items for tax and accounting purposes, such as the carrying value of intangibles, deductibility of expenses, depreciation of property, plant, and equipment, stock-based compensation expense, and valuation of inventories. Temporary differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if sufficient taxable income is not generated in future periods. To the extent we determine the need to establish a valuation allowance or increase such allowance in a period, we must include an expense within the tax provision in the accompanying consolidated statements of operations.

Based on our results for fiscal 2021, a hypothetical 100 bps increase in our effective tax rate would have resulted in an increase in our income tax expense of \$4.4 million.

## **Foreign Currency**

The functional currency of substantially all of our foreign operations is the local currency.

Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the average exchange rates for the period. The resulting translation adjustments are recorded as a component of Accumulated other comprehensive income (loss) within stockholders' equity.

Transaction gains and losses, such as those resulting from the settlement of nonfunctional currency receivables and payables, including intercompany balances, are included in Other expense (income), net in our consolidated statements of operations. Additionally, payable and receivable balances denominated in nonfunctional currencies are marked-to-market at the end of each reporting period, and the gain or loss is recognized in Other expense (income), net in our consolidated statements of operations.

As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily between the U.S. dollar and the currencies of Canada and Mexico, we may use foreign currency forward contracts to hedge purchases that are made in U.S. dollars, primarily for inventory purchases in our Canadian and Mexican businesses. As part of a hedging strategy, we may use foreign currency forward exchange contracts that typically have maturities of less than 12 months and provide continuing coverage throughout the hedging period. Historically, these contracts have not been designated for hedge accounting treatment, and therefore changes in the fair value of these contracts were recorded in our consolidated statement of operations. Such foreign currency gains and losses include the mark-to-market fair value adjustments at the end of each reporting period related to any open contracts, as well as any realized gains and losses on contracts settled during the reporting period. Fair values for open contracts are calculated by using readily observable market inputs (market-

quoted currency exchange rates), classified as Level 2 within the fair value hierarchy. At January 1, 2022, there were no unsettled foreign currency forward contracts.

### **Employee Benefit Plans**

We sponsor a frozen defined benefit pension plan and other unfunded post-retirement plans. The defined benefit pension and post-retirement plans require an actuarial valuation to determine plan obligations, and related periodic costs. Plan valuations require economic assumptions, including expected rates of return on plan assets, discount rates to value plan obligations and employee demographic assumptions including mortality rates. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions. Actual results that differ from the actuarial assumptions are reflected as deferred gains and losses in Accumulated other comprehensive income (loss) within stockholder's equity. Deferred gains and losses that exceed 10% of the greater of the plan's projected benefit obligations or market value of assets are amortized to earnings over the average remaining life of inactive plan participants.

Any future obligation under our pension plan not funded from returns on plan assets are expected to be funded from cash flows from operations.

The most significant assumption used to determine the Company's projected benefit obligation under its defined benefit plans is the discount rate. For further details on rates and assumptions, see Item 8 "Financial Statements and Supplementary Data" under Note 11, *Employee Benefit Plans*, to the consolidated financial statements.

### **Stock-Based Compensation Arrangements**

We recognize the cost resulting from all stock-based payment transactions in the financial statements at grant date fair value. The fair value of stock awards is determined based on the quoted closing price of our common stock on the date of grant. The fair value of stock options is determined based on the Black-Scholes option pricing model, which requires the use of subjective assumptions. These assumptions include the following:

- Volatility – This is a measure of the amount by which a stock price has fluctuated or is expected to fluctuate. We use actual monthly historical changes in the market value of our stock covering the expected life of stock options being valued. An increase in the expected volatility will increase the fair value of the stock option and related compensation expense.
- Risk-free interest rate – This is the U.S. Treasury rate as of the grant date having a term equal to the expected term of the stock option. An increase in the risk-free interest rate will increase the fair value of the stock option and related compensation expense.
- Expected term – This is the period of time over which the stock options granted are expected to remain outstanding and is based on historical experience and estimated future exercise behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. An increase in the expected term will increase the fair value of the stock option and related compensation expense.
- Dividend yield – We estimate a dividend yield based on the current dividend amount as a percentage of our current stock price. An increase in the dividend yield will decrease the fair value of the stock option and related stock-based compensation expense.
- Forfeitures – We estimate forfeitures of stock-based awards based on historical experience and expected future activity.

Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in the accompanying consolidated statements of operations.

We account for performance-based awards over the vesting term of the awards that are expected to vest based on whether it is probable that the performance criteria will be achieved. We reassess the probability of vesting at each reporting period for awards with performance criteria and adjust stock-based compensation expense based on the probability assessments.

During the requisite service period, we recognize a deferred income tax benefit for the expense recognized for U.S. GAAP. At time of subsequent vesting, exercise, forfeiture, or expiration of an award, the difference between our actual income tax deduction, if any, and the previously accrued income tax benefit is recognized in our income tax expense/benefit during the current period.

## **ITEM 7A. 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. The changes in foreign currency exchange rates used for translation in fiscal 2021, compared to fiscal 2020, had a \$20.0 million favorable effect on our consolidated net sales.

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 expense (income), net. Foreign currency transaction gains and losses related to intercompany loans with foreign subsidiaries that are of a long-term nature are accounted for as translation adjustments and are included in Accumulated other comprehensive income (loss).

#### ***Interest Rate Risk***

Our operating results are subject to risk from interest rate fluctuations on our amended revolving credit facility, which carries variable interest rates. As of January 1, 2022, there were no variable rate borrowings outstanding under the amended 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 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**CARTER'S, INC.**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Carter's, Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Carter's, Inc. and its subsidiaries (the "Company") as of January 1, 2022 and January 2, 2021, and the related consolidated statements of operations, of comprehensive income, of changes in stockholders' equity and of cash flows for each of the three years in the period ended January 1, 2022, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of January 1, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 1, 2022 and January 2, 2021, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2022 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2022, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Revenue Recognition - U.S. Wholesale*

As described in Notes 2 and 3 to the consolidated financial statements, the Company's U.S. wholesale revenue was \$1,126,415 thousand for the year ended January 1, 2022. The Company relies on shipping terms to determine when performance obligations are satisfied. When goods are shipped to wholesale customers "FOB Shipping Point," control of the goods is transferred to the customer at the time of shipment if there are no remaining performance obligations. The Company recognizes the revenue once control passes to the customer. The transaction price is the amount of consideration the Company expects to receive under the arrangement. The Company is required to estimate variable consideration (if any) and to factor that estimation into the determination of the transaction price. The Company may offer sales incentives to wholesale customers, including discounts.

The principal consideration for our determination that performing procedures relating to U.S. wholesale revenue recognition is a critical audit matter is the significant audit effort in performing procedures related to the Company's revenue recognition.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the recording of U.S. wholesale revenue at the transaction price once control passes to the customer. These procedures also included, among others (i) testing the completeness, accuracy, and occurrence of revenue recognized for a sample of revenue transactions by obtaining and inspecting source documents, including purchase orders, invoices, proof of shipment, and subsequent cash receipts, where applicable; ii) testing the completeness, accuracy, and occurrence of a sample of sales incentive transactions by obtaining and inspecting source documents, including support for the nature of the incentive, amount, and agreement with the customer; and iii) confirming a sample of outstanding customer invoice balances as of January 1, 2022 and obtaining and inspecting source documents, including invoices, proof of shipment, and subsequent cash receipts, where applicable, for confirmations not returned.

/s/ PricewaterhouseCoopers LLP  
Atlanta, Georgia  
February 25, 2022

We have served as the Company's auditor since at least 1968. We have not been able to determine the specific year we began serving as auditor of the Company.

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

	January 1, 2022	January 2, 2021
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 984,294	\$ 1,102,323
Accounts receivable, net of allowance for credit losses of \$7,281 and \$5,940, respectively	231,354	186,512
Finished goods inventories, net of inventory reserves of \$14,378 and \$14,206, respectively	647,742	599,262
Prepaid expenses and other current assets	50,131	57,927
Total current assets	1,913,521	1,946,024
Property, plant, and equipment, net	216,004	262,345
Operating lease assets	487,748	593,008
Tradenames, net	307,643	307,893
Goodwill	212,023	211,776
Customer relationships, net	33,969	37,510
Other assets	30,889	34,024
Total assets	\$ 3,201,797	\$ 3,392,580
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 407,044	\$ 472,140
Current operating lease liabilities	147,537	185,152
Other current liabilities	176,449	135,240
Total current liabilities	731,030	792,532
Long-term debt, net	991,370	989,530
Deferred income taxes	40,910	52,770
Long-term operating lease liabilities	441,861	554,497
Other long-term liabilities	46,440	65,218
Total liabilities	\$ 2,251,611	\$ 2,454,547
Commitments and contingencies - Note 17		
Stockholders' equity:		
Preferred stock; par value \$0.01 per share; 100,000 shares authorized; none issued or outstanding at January 01, 2022 and January 02, 2021	\$ —	\$ —
Common stock, voting; par value \$0.01 per share; 150,000,000 shares authorized; 41,148,870 and 43,780,075 shares issued and outstanding at January 1, 2022 and January 2, 2021, respectively	411	438
Additional paid-in capital	—	17,752
Accumulated other comprehensive loss	(28,897)	(32,760)
Retained earnings	978,672	952,603
Total stockholders' equity	950,186	938,033
Total liabilities and stockholders' equity	\$ 3,201,797	\$ 3,392,580

See accompanying notes to the consolidated financial statements.



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

	For the fiscal year ended		
	January 1, 2022 (52 weeks)	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)
Net sales	\$ 3,486,440	\$ 3,024,334	\$ 3,519,286
Cost of goods sold	1,832,045	1,696,224	2,008,630
Adverse purchase commitments (inventory and raw materials), net	(7,879)	14,668	2,106
Gross profit	1,662,274	1,313,442	1,508,550
Royalty income, net	28,681	26,276	34,637
Selling, general, and administrative expenses	1,193,876	1,105,607	1,140,515
Goodwill impairment	—	17,742	—
Intangible asset impairment	—	26,500	30,800
Operating income	497,079	189,869	371,872
Interest expense	60,294	56,062	37,617
Interest income	(1,096)	(1,515)	(1,303)
Other (income) expense, net	(409)	338	(217)
Loss on extinguishment of debt	—	—	7,823
Income before income taxes	438,290	134,984	327,952
Income tax provision	98,542	25,267	64,150
Net income	\$ 339,748	\$ 109,717	\$ 263,802
Basic net income per common share	\$ 7.83	\$ 2.51	\$ 5.89
Diluted net income per common share	\$ 7.81	\$ 2.50	\$ 5.85
Dividend declared and paid per common share	\$ 1.40	\$ 0.60	\$ 2.00

See accompanying notes to the consolidated financial statements.

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

	For the fiscal year ended		
	January 1, 2022 (52 weeks)	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)
Net income	\$ 339,748	\$ 109,717	\$ 263,802
Other comprehensive income:			
Unrealized gain (loss) on OshKosh defined benefit plan, net of (tax expense) or tax benefit of \$(1,220), \$680, and \$(230) for the fiscal years 2021, 2020, and 2019, respectively	3,973	(2,197)	746
Unrealized (loss) gain on Carter's post-retirement benefit obligation, net of tax benefit of \$40, \$39, and \$150 for fiscal years 2021, 2020, and 2019, respectively	(115)	(144)	(483)
Foreign currency translation adjustments	5	5,215	6,442
Total other comprehensive income	3,863	2,874	6,705
Comprehensive income	<u>\$ 343,611</u>	<u>\$ 112,591</u>	<u>\$ 270,507</u>

See accompanying notes to the consolidated financial statements.

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

	For the fiscal year ended		
	January 1, 2022 (52 weeks)	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)
<b>Cash flows from operating activities:</b>			
Net income	\$ 339,748	\$ 109,717	\$ 263,802
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation on property, plant, and equipment	90,378	90,284	92,207
Amortization of intangible assets	3,730	3,715	3,747
Provisions for (recoveries of) excess and obsolete inventory, net <sup>(1)</sup>	4,042	4,866	(5,791)
Goodwill impairment	—	17,742	—
Intangible asset impairments	—	26,500	30,800
Other asset impairments and loss on disposal of property, plant and equipment, net of recoveries	213	11,374	452
Amortization of debt issuance costs	3,052	2,372	1,437
Stock-based compensation expense	21,029	12,830	16,529
Unrealized foreign currency exchange loss (gain), net	371	361	(564)
Provisions for (recoveries of) doubtful accounts receivable from customers	1,345	6,072	(220)
Loss on extinguishment of debt	—	—	7,823
Unrealized gains on investments	(2,279)	(1,974)	(3,977)
Deferred income taxes benefit	(13,532)	(23,254)	(13,300)
<b>Effect of changes in operating assets and liabilities:</b>			
Accounts receivable	(46,480)	58,275	8,121
Finished goods inventories <sup>(1)</sup>	(52,914)	(8,063)	(10,892)
Prepaid expenses and other assets	6,866	(8,558)	(9,782)
Accounts payable and other liabilities	(87,311)	286,235	6,823
Net cash provided by operating activities	\$ 268,258	\$ 588,494	\$ 387,215
<b>Cash flows from investing activities:</b>			
Capital expenditures	\$ (37,442)	\$ (32,871)	\$ (61,419)
Proceeds from sale of investments <sup>(2)</sup>	5,000	1,400	—
Disposals and recoveries from property, plant, and equipment	—	—	749
Net cash used in investing activities	\$ (32,442)	\$ (31,471)	\$ (60,670)
<b>Cash flows from financing activities:</b>			
Proceeds from senior notes due 2025	\$ —	\$ 500,000	\$ —
Proceeds from senior notes due 2027	—	—	500,000
Payment of senior notes due 2021	—	—	(400,000)
Premiums paid to extinguish debt	—	—	(5,252)
Payments of debt issuance costs	(223)	(7,639)	(5,793)
Borrowings under secured revolving credit facility	—	644,000	265,000
Payments on secured revolving credit facility	—	(744,000)	(361,000)
Repurchase of common stock	(299,339)	(45,255)	(196,910)
Dividends paid	(60,124)	(26,260)	(89,591)
Withholdings from vesting of restricted stock	(4,019)	(5,011)	(4,328)
Proceeds from exercise of stock options	10,995	9,008	14,490
Net cash (used in) provided by financing activities	\$ (352,710)	\$ 324,843	\$ (283,384)
Net effect of exchange rate changes on cash and cash equivalents	(1,135)	6,146	1,073
Net (decrease) increase in cash and cash equivalents	\$ (118,029)	\$ 888,012	\$ 44,234
Cash and cash equivalents, beginning of fiscal year	1,102,323	214,311	170,077
Cash and cash equivalents, end of fiscal year	\$ 984,294	\$ 1,102,323	\$ 214,311

(1) Cash flows for fiscal 2019 were revised to reflect the reclassification of \$11.6 million related to the recoveries of excess and obsolete inventory.

(2) Cash flows for fiscal 2020 were revised to reflect the reclassification of \$1.4 million proceeds from sale of investments from cash flows from operating activities to cash flows from investing activities.

See accompanying notes to the consolidated financial statements.

**CARTER'S, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
*(dollars in thousands)*

	Common stock - shares	Common stock - \$	Additional paid-in capital	Accumulated other comprehensive (loss) income	Retained earnings	Total stockholders' equity
<b>Balance at December 29, 2018</b>	45,629,014	\$ 456	\$ —	\$ (40,839)	\$ 909,816	\$ 869,433
Exercise of stock options	274,960	3	14,487	—	—	14,490
Withholdings from vesting of restricted stock	(46,429)	—	(4,328)	—	—	(4,328)
Restricted stock activity	213,030	2	(2)	—	—	—
Stock-based compensation expense	—	—	16,529	—	—	16,529
Repurchases of common stock	(2,107,472)	(21)	(26,686)	—	(170,203)	(196,910)
Cash dividends declared and paid of \$2.00 per common share	—	—	—	—	(89,591)	(89,591)
Comprehensive income	—	—	—	6,705	263,802	270,507
Reclassification of tax effects <sup>(*)</sup>	—	—	—	(1,500)	1,500	—
<b>Balance at December 28, 2019</b>	43,963,103	\$ 440	\$ —	\$ (35,634)	\$ 915,324	\$ 880,130
Exercise of stock options	193,645	2	9,006	—	—	9,008
Withholdings from vesting of restricted stock	(47,337)	—	(5,011)	—	—	(5,011)
Restricted stock activity	145,348	1	(1)	—	—	—
Stock-based compensation expense	—	—	12,830	—	—	12,830
Repurchases of common stock	(474,684)	(5)	928	—	(46,178)	(45,255)
Cash dividends declared and paid of \$0.60 per common share	—	—	—	—	(26,260)	(26,260)
Comprehensive income	—	—	—	2,874	109,717	112,591
<b>Balance at January 2, 2021</b>	43,780,075	\$ 438	\$ 17,752	\$ (32,760)	\$ 952,603	\$ 938,033
Exercise of stock options	178,803	1	10,994	—	—	10,995
Withholdings from vesting of restricted stock	(41,523)	—	(4,019)	—	—	(4,019)
Restricted stock activity	199,134	2	(2)	—	—	—
Stock-based compensation expense	—	—	21,029	—	—	21,029
Repurchases of common stock	(2,967,619)	(30)	(45,754)	—	(253,555)	(299,339)
Cash dividends declared and paid of \$1.40 per common share	—	—	—	—	(60,124)	(60,124)
Comprehensive income	—	—	—	3,863	339,748	343,611
<b>Balance at January 1, 2022</b>	41,148,870	\$ 411	\$ —	\$ (28,897)	\$ 978,672	\$ 950,186

(\*) In the first quarter of fiscal 2019, the Company reclassified \$1.5 million of tax benefits from "Accumulated other comprehensive loss" to "Retained earnings" for the tax effects resulting from the December 22, 2017 enactment of the Tax Cut and Jobs Act in accordance with the adoption of Accounting Standards Update 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.

See accompanying notes to the consolidated financial statements.

**CARTER'S, INC.**  
**NOTES TO 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*, *Skip Hop*, *Child of Mine*, *Just One You*, *Simple Joys*, *Carter's My First Love*, *little planet*, and other brands. The Company's products are sourced through contractual arrangements with manufacturers worldwide for: 1) wholesale distribution to leading department stores, national chains, and specialty retailers domestically and internationally and 2) distribution to the Company's own retail stores and eCommerce sites that market its brand name merchandise and other licensed products manufactured by other companies.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Carter's, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

**Fiscal Year**

The Company's fiscal year ends on the Saturday in December or January nearest December 31. Every five or six years, our fiscal year includes an additional 53<sup>rd</sup> week of results. Fiscal 2021, which ended on January 1, 2022, contained 52 weeks. Fiscal 2020, which ended on January 2, 2021, contained 53 weeks. Fiscal 2019, which ended on December 28, 2019, contained 52 weeks.

Certain expenses increased in relationship to the additional revenue from the 53<sup>rd</sup> week, while other expenses, such as fixed costs and expenses incurred on a calendar-month basis, did not increase. The consolidated gross margin for the additional revenue from the 53<sup>rd</sup> week is slightly lower than the consolidated gross margin for fiscal 2020 due to increased promotional activity during the 53<sup>rd</sup> week.

**Use of Estimates in the Preparation of the Consolidated Financial Statements**

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("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 period. Actual results could differ from those estimates.

**Foreign Currency Translation and Transactions**

**Translation Adjustments**

The functional currency of substantially all of the Company's foreign operations is the local currency in each foreign country. Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the average exchange rates for the period. The resulting translation adjustments are recorded as a component of Accumulated other comprehensive income (loss) within the accompanying consolidated balance sheets.

**Transaction Adjustments**

The Company also recognizes gains and losses on transactions that are denominated in a currency other than the respective entity's functional currency. Foreign currency transaction gains and losses also include the impact of intercompany loans with foreign subsidiaries. Foreign currency transaction gains and losses are recognized in earnings, as a separate component of Other expense (income), net, within the consolidated statements of operations. 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) within the accompanying consolidated balance sheets.

**Foreign Currency Contracts**

As part of the Company's overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily between the U.S. dollar and the currencies of Canada and Mexico, the Company may use foreign currency forward contracts to hedge purchases that are made in U.S. dollars, primarily for inventory purchases in its Canadian and Mexican operations. As part of this hedging strategy, the Company may use foreign currency forward exchange contracts with maturities of less than 12 months to provide continuing coverage throughout the hedging period. Historically, these

contracts were not designated for hedge accounting treatment, and therefore changes in the fair value of these contracts have been recorded in Other (income) expense, net in the Company's consolidated statements of operations. Such foreign currency gains and losses typically include the mark-to-market fair value adjustments at the end of each reporting period related to open contracts, as well as any realized gains and losses on contracts settled during the reporting period. The fair values of any unsettled currency contracts are included in other current assets or other current liabilities on the Company's consolidated balance sheet. On the consolidated statement of cash flows, the Company includes all activity, including cash settlement of any contracts, as a component of cash flows from operations.

### **Cash and Cash Equivalents**

The Company considers all highly liquid investments that have original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of deposit accounts and cash management funds invested in U.S. government instruments. These investments are stated at cost, which approximates fair value. Cash equivalents also include amounts due from third-party financial institutions for credit and debit card transactions; these amounts typically settle in less than five days. However, money market funds held in a rabbi trust that are being used as investments to satisfy the Company's obligations under its deferred compensation plans are treated as investments and recorded in Other assets on the accompanying consolidated balance sheets.

### **Concentration of Cash Deposits Risk**

As of January 1, 2022, the Company had approximately \$984.3 million of cash and cash equivalents in major financial institutions, including approximately \$112.7 million in financial institutions located outside of the United States. The Company maintains cash deposits with major financial institutions that exceed the insurance coverage limits provided by the Federal Deposit Insurance Corporation in the U.S. and by similar insurers for deposits located outside the U.S. To mitigate this risk, the Company utilizes a policy of allocating cash deposits among major financial institutions that have been evaluated by the Company and third-party rating agencies as having acceptable risk profiles.

### **Accounts Receivable**

#### **Concentration of Credit Risk**

In fiscal 2021, 2020, and 2019, no one customer accounted for 10% or more of the Company's consolidated net sales.

At January 1, 2022, three wholesale customers each had individual receivable balances in excess of 10% of gross accounts receivable, and the total receivable balances due from these three wholesale customers in the aggregate equaled approximately 52% of total gross trade receivables outstanding. At January 2, 2021, three wholesale customers each had individual receivable balances in excess of 10% of gross accounts receivable, and the total receivable balances due from these three wholesale customers in the aggregate equaled approximately 69% of total gross trade receivables outstanding.

#### **Valuation Accounts for Wholesale Accounts Receivable**

##### *Accounts Receivable Reserves*

The Company's accounts receivable reserves for wholesale customers include an allowance for expected credit losses and an allowance for chargebacks. The allowance for expected credit losses includes estimated losses resulting from the inability of our customers to make payments. If the financial condition of a customer were to deteriorate, resulting in an impairment of its ability to make payments, an additional allowance could be required. Past due balances over 90 days are reviewed individually for collectibility. The Company's credit and collections department reviews all other balances regularly. Account balances are charged off against the allowance when it is probable that the receivable will not be recovered. Provisions for the allowance for expected credit losses are reflected in Selling, general, and administrative ("SG&A") expenses on the consolidated statement of operations and provisions for chargebacks are reflected as a reduction in Net sales on the consolidated statement of operations.

##### *Sales Returns Reserves*

Except in very limited instances, the Company does not allow its wholesale customers to return goods to the Company.

### **Inventories**

Inventories, which consist primarily of finished goods, are stated approximately at the lower of cost (first-in, first-out basis for wholesale inventory and average cost for retail inventory) or net realizable value. Obsolete, damaged, and excess inventory is carried at net realizable value by establishing reserves after assessing historical recovery rates, current market conditions, and future marketing and sales plans. Rebates, discounts, and other cash consideration received from a vendor related to inventory

purchases are reflected as reductions in the cost of the related inventory item, and are therefore reflected in cost of sales when the related inventory item is sold.

## **Leases**

### *Financial Presentation*

The Company determines if an arrangement is a lease at its inception. Operating leases are included in operating lease assets, current operating lease liabilities, and long-term operating lease liabilities in our consolidated balance sheets.

Right of use ("ROU") assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

The operating lease ROU asset also includes initial direct costs and excludes lease incentives. Lease expense is recognized on a straight-line basis over the lease term.

Certain of our lease agreements include variable rental payments based on a percentage of retail sales over contractual levels and others include variable rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

### *Policy Elections*

**Portfolio approach** - In general, the Company accounts for the underlying leased asset and applies a discount rate at the lease level. However, there are certain non-real estate leases for which the Company utilizes the portfolio method by aggregating similar leased assets based on the underlying lease term.

**Non-lease component** - The Company has lease agreements with lease and non-lease components. The Company has elected a policy to account for lease and non-lease components as a single component for all asset classes.

**Short-term lease** - Leases with an initial term of 12 months or less are not recorded on the balance sheets.

**Discount rate** - As most of the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

**Renewal options** - The Company evaluates the inclusion of renewal options on a lease by lease basis. In general, for leased retail real estate, the Company does not include renewal options in the underlying lease term.

## **Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost, less accumulated depreciation and amortization. When fixed assets are sold or otherwise disposed of, the accounts are relieved of the original cost of the assets and the related accumulated depreciation or amortization and any resulting gain or loss is credited or charged to income. For financial reporting purposes, depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets as follows: buildings and improvements from 15 to 26 years, retail store fixtures, equipment, and computers from 3 to 10 years. Leasehold improvements and fixed assets purchased under capital lease are amortized over the lesser of the asset life or related lease term. The Company capitalizes the cost of its fixtures designed and purchased for use at major wholesale accounts. The cost of these fixtures is amortized over 3 years.

## **Internal-Use Software**

The Company purchases software licenses from external vendors and also develops software internally using Company employees and consultants. Software license costs, including certain costs to internally develop software, that meet the applicable criteria are capitalized while all other costs are expensed as incurred. Capitalized software is depreciated or amortized on the straight-line method over its estimated useful lives, from 3 to 10 years. If a software application does not include a purchased license for the software, such as a cloud-based software application, the arrangement is accounted for as a service contract. Cloud computing implementation costs incurred in a hosting arrangement that is a service contract and that meet the applicable criteria are capitalized and reported in Prepaid expenses and other current assets on the consolidated balances sheets. Any capitalized costs are amortized over the term of the hosting arrangement, and the expense is presented in the same line item within the consolidated statements of operations as the expense for the service contract's fees.

## Goodwill and Other Intangible Assets

### Annual Impairment Reviews

The carrying values of the goodwill and indefinite-lived tradename assets are subject to annual impairment reviews which are performed as of the last day of each fiscal year. Additionally, a review for potential impairment is performed whenever significant events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Significant assumptions in the impairment models include estimates of revenue growth and profitability, terminal values, discount rates, an implied control premium, and, in the case of tradenames, royalty rates.

### Goodwill

The Company performs impairment tests of its goodwill at the reporting unit level. Qualitative and quantitative methods are used to assess for impairment, including the use of discounted cash flows ("income approach") and relevant data from guideline public companies ("market approach").

Under a qualitative assessment, the Company determines if it is "more likely than not" that the fair value of the reporting unit is less than its carrying value. Qualitative factors may include, but are not limited to: macroeconomic conditions, industry and market considerations, cost factors that may have a negative effect on earnings, overall financial performance, and other relevant entity-specific events. If the Company determines that it is "more likely than not" that the fair value of the reporting unit is less than its carrying value, then a goodwill impairment test using quantitative assessments must be performed. If it is determined that it is "not more likely than not" that the fair value of the reporting unit is less than its carrying value, then no further testing is required and the Company documents the relevant qualitative factors that support the strength in the fair value.

Under a quantitative assessment for goodwill, the Company compares the fair value of a reporting unit to its carrying value, including goodwill. The Company uses the income approach and the market approach to determine the fair value of a reporting unit. The assumptions used in these approaches include revenue growth and profitability, terminal values, discount rates, and an implied control premium. These assumptions are consistent with those of hypothetical marketplace participants. An impairment is recorded for any excess carrying value above the fair value of the reporting unit, not to exceed the carrying value of goodwill.

Based upon our most recent annual assessment, performed as of January 1, 2022, using a qualitative assessment, there were no impairments in the value of goodwill.

In the first quarter of fiscal 2020, the Company concluded that impairment indicators existed due to the decrease in the Company's market capitalization, lower than expected actual sales, and lower projected sales and profitability, primarily due to the impacts from the outbreak of COVID-19. As a result, during the first quarter of fiscal 2020, the Company conducted interim quantitative impairment assessments of 1) the goodwill ascribed to the Other International reporting unit recorded in connection with the allocation of goodwill to the newly created International segment as a result of the acquisition of Bonnie Togs in 2011 and 2) on the value of the Company's indefinite-lived *OshKosh* and *Skip Hop* tradename assets that was recorded in connection with the acquisition of OshKosh B'Gosh Inc. in July 2005 and Skip Hop Holdings, Inc. in February 2017, respectively.

The goodwill impairment assessment for the Other International reporting unit was performed in accordance with ASC 350, "*Intangibles--Goodwill and Other*" ("ASC 350") and compares the carrying value of the Other International reporting unit to its fair value. Consistent with prior practice, the fair value of the Other International reporting unit was determined using the income approach and the market approach. As a result of this assessment, a goodwill impairment charge of \$17.7 million was recorded to our Other International reporting unit in the International segment during the first quarter of fiscal 2020. The goodwill impairment charge recorded on our Other International reporting unit included charges of \$9.4 million, \$5.2 million, and \$3.1 million to Skip Hop, Carter's, and Carter's Mexico goodwill, respectively. The carrying value of the Company's goodwill for the Other International reporting unit as of January 1, 2022 was \$11.7 million.

### Indefinite-lived Tradenames

For indefinite-lived tradenames, the Company may utilize a qualitative assessment, as described above, to determine whether the fair value of an indefinite-lived asset is less than its carrying value. If a quantitative assessment is necessary, the Company determines fair value using a discounted cash flow model that uses the relief-from-royalty method. If the carrying amount exceeds the fair value of the tradename, an impairment charge is recognized in the amount of the excess.

Based upon our most recent annual assessment, performed as of January 1, 2022, using a qualitative assessment, there were no impairments in the values of our indefinite-lived tradenames.



As discussed above, during the first quarter of fiscal 2020, the Company conducted interim quantitative impairment assessments on the value of the Company's indefinite-lived *OshKosh* and *Skip Hop* tradename assets that was recorded in connection with the acquisition of OshKosh B'Gosh Inc. in July 2005 and Skip Hop Holdings, Inc. in February 2017, respectively. The *OshKosh* and *Skip Hop* indefinite-lived tradename asset assessments were performed in accordance with ASC 350 and were determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of not having to license the tradename from another owner. Based on these assessments, charges of \$15.5 million and \$11.0 million were recorded during the first quarter of fiscal 2020 on our indefinite-lived *OshKosh* and *Skip Hop* tradename assets, respectively. The charge recorded on our indefinite-lived *OshKosh* tradename asset included charges of \$13.6 million, \$1.6 million, and \$0.3 million in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *OshKosh* tradename asset. The charge recorded on our indefinite-lived *Skip Hop* tradename asset included charges of \$6.8 million, \$3.7 million, and \$0.5 million 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 values of the Company's indefinite-lived *OshKosh* and *Skip Hop* tradename assets as of January 1, 2022 were \$70.0 million and \$15.0 million, respectively.

#### **Impairment of Other Long-Lived Assets**

The Company reviews other long-lived assets, including operating lease assets, property, plant, and equipment, and licensing agreements, for impairment whenever events or changes in circumstances indicate that the carrying amount of such an asset may not be recoverable. Management will determine whether there has been a permanent impairment on such assets held for use by comparing anticipated undiscounted future cash flows from the use and eventual disposition of the asset or asset group to the carrying value of the asset. The amount of any resulting impairment will be calculated by comparing the carrying value to fair value, which may be estimated using the present value of the same cash flows. Long-lived assets that meet the definition of held for sale will be valued at the lower of carrying amount or fair value, less costs to sell. There were no impairments to other long-lived assets in fiscal 2021.

#### **Deferred Debt Issuance Costs**

Debt issuance costs associated with the Company's secured revolving credit facility and senior term notes are deferred and amortized to interest expense over the term of the related debt using the effective interest method. Debt issuance costs associated with Company's senior notes are presented on the Company's consolidated balance sheet as a direct reduction in the carrying value of the associated debt liability. Fees paid to lenders by the Company to obtain its secured revolving credit facility are included within Other assets on the Company's consolidated balance sheets and classified as either current or non-current based on the expiration date of the credit facility.

#### **Fair Value Measurements**

The fair value framework requires the Company to categorize certain assets and liabilities into three levels, based upon the assumptions used to price those assets or liabilities. The three levels are defined as follows:

- Level 1:** Quoted prices in active markets for identical assets or liabilities.
- Level 2:** Quoted prices for similar assets and liabilities in active markets or inputs that are observable.
- Level 3:** Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

The Company measures its pension assets, deferred compensation plan investment assets, and any unsettled foreign currency forward contracts at fair value. The Company's cash and cash equivalents, accounts receivable, and accounts payable are short-term in nature. As such, their carrying value approximates fair value.

The carrying values of the Company's outstanding borrowings are not required to be remeasured and adjusted to the then-current fair values at the end of each reporting period. Instead, the fair values of the Company's outstanding borrowings are disclosed at the end of each reporting period in Note 8, *Long-Term Debt*, to the consolidated financial statements. Had the Company been required to remeasure and adjust the carrying values of its outstanding borrowings to fair value at the end of each reporting period, such fair value measurements would have been disclosed as a Level 2 liability in the fair value hierarchy.

### **Revenue Recognition**

The Company uses the five-step model to recognize revenue:

- 1) Identify the contract with the customer;
- 2) Identify the performance obligation(s);
- 3) Determine the transaction price;
- 4) Allocate the transaction price to each performance obligation if multiple obligations exist; and
- 5) Recognize the revenue when the performance obligations are satisfied

#### *Performance Obligations*

The Company identifies each distinct performance obligation to transfer goods (or bundle of goods). The Company recognizes revenue when (or as) it satisfies a performance obligation by transferring control of the goods to the customer. Other than inbound and outbound freight and shipping arrangements, the Company does not use third parties to satisfy its performance obligations in revenue arrangements with customers.

#### *When Performance Obligations Are Satisfied*

**Wholesale Revenues** - The Company typically transfers control upon shipment. However, in certain arrangements where the Company retains the risk of loss during shipment, satisfaction of the performance obligation occurs when the goods reach the customer.

**Retail Revenues** - For transactions in stores, the Company satisfies its performance obligation at point of sale when the customer takes possession of the goods and tenders payment. For purchases made through the Company's eCommerce channel, revenue is recognized when the goods are physically delivered to the customer.

**Loyalty program** - Retail customers can earn loyalty points that accumulate towards earning reward certificates that are redeemable for a specified amount off of future purchases for a specified period of time. Points and reward certificates earned by retail customers under the Company's loyalty program represent a separate performance obligation. For transactions where a customer earns loyalty points, the Company allocates revenue between the goods sold and the loyalty points expected to be earned towards a reward certificate based upon the relative standalone selling price. The revenue that is deferred is recorded within Other current liabilities on the Company's consolidated balance sheets and then recognized as revenue upon redemption of the reward certificate. Loyalty program breakage is recognized as revenue based on the customer redemption pattern.

**Gift Cards** - Customer purchases of gift cards are not recognized as revenue until the gift card is redeemed. The revenue that is deferred is recorded within Other current liabilities on the Company's consolidated balance sheets. Gift card breakage is recognized as revenue based on the customer redemption pattern.

**Royalty Revenues** - The Company satisfies its performance obligations with licensees over time as customers have the right to use the intellectual property over the contract period.

#### *Significant Payment Terms*

Retail customers tender a form of payment, such as cash or a credit/debit card, at point of sale. For wholesale customers and licensees, payment is due based on established terms.

#### *Returns and Refunds*

The Company establishes return provisions for retail customers. Except in very limited instances, the Company does not allow its wholesale customers to return goods to the Company.

*Significant Judgments*

**Sale of Goods** - The Company relies on shipping terms to determine when performance obligations are satisfied. When goods are shipped to wholesale customers "FOB Shipping Point," control of the goods is transferred to the customer at the time of shipment if there are no remaining performance obligations. The Company recognizes the revenue once control passes to the customer. For most retail transactions in stores, no significant judgments are involved since revenue is recognized at the point of sale when tender is exchanged and the customer receives the goods. For retail transactions made through the Company's eCommerce channel, revenue is recognized when the goods are physically delivered to the customer. The Company recognizes revenue from omni-channel sales, including buy on-line and pick up in store, buy-on-line, ship-to-store, and buy-on-line, deliver-from-store, when the product is physically delivered to the customer or when the product arrives at the store and has been picked up by the customer.

**Royalty Revenues** - The Company transfers the right-to-use benefit to the licensee for the contract term and therefore the Company satisfies its performance obligation over time. Revenue recognized for each reporting period is based on the greater of: 1) the royalties owed on actual net sales by the licensee and 2) a minimum royalty guarantee, if applicable.

**Transaction Price** - The transaction price is the amount of consideration the Company expects to receive under the arrangement. The Company is required to estimate variable consideration (if any) and to factor that estimation into the determination of the transaction price. The Company may offer sales incentives to wholesale and retail customers, including discounts. For retail transactions, the Company has significant experience with return patterns and relies on this experience to estimate expected returns when determining the transaction price.

**Standalone Selling Prices** - For arrangements that contain multiple performance obligations, the Company allocates the transaction price to each performance obligation on a relative standalone selling price basis.

**Costs Incurred to Obtain a Contract** - Incremental costs to obtain contracts are not material to the Company.

*Policy Elections*

In addition to those previously disclosed, the Company has made the following accounting policy elections and practical expedients:

- **Portfolio Approach** - The Company uses the portfolio approach when multiple contracts or performance obligations are involved in the determination of revenue recognition.
- **Taxes** - The Company excludes from the transaction price any taxes collected from customers that are remitted to taxing authorities.
- **Shipping and Handling Charges** - Charges that are incurred before and after the customer obtains control of goods are deemed to be fulfillment costs.
- **Time Value of Money** - The Company's payment terms are less than one year from the transfer of goods. Therefore, the Company does not adjust promised amounts of consideration for the effects of the time value of money.
- **Disclosure of Remaining Performance Obligations** - The Company does not disclose the aggregate amount of the transaction price allocated to remaining performance obligations for contracts that are one year or less in term.

Cooperative advertising arrangements reimburse customers for marketing activities for certain of our products. The Company records these reimbursements under cooperative advertising arrangements with certain of its major wholesale customers at fair value. Fair value is determined based upon, among other factors, comparable market analysis for similar advertisements. The Company has included the fair value of these arrangements of approximately \$0.2 million for fiscal 2021, \$0.5 million for fiscal 2020, and \$3.1 million for fiscal 2019 as a component of SG&A expenses on the Company's consolidated statements of operations, rather than as a reduction of Net sales. Amounts determined to be in excess of the fair value of these arrangements are recorded as a reduction of Net sales.

**Costs of Goods Sold and Selling, General and Administrative Expenses**

In addition to the cost of product, cost of goods sold include changes to our inventory reserve and 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. For omni-channel transactions, costs of goods sold include the costs of shipping product to end customers or to retail stores.

Retail store occupancy costs, distribution expenses, and generally all expenses other than interest and income taxes are included in 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. Distribution expenses included in SG&A totaled \$206.6 million, \$190.7 million, and \$191.1 million for fiscal years 2021, 2020, and 2019, respectively.

### **Gross Profit**

Gross profit is calculated as consolidated net sales less cost of goods sold, and gross margin is calculated as gross profit divided by consolidated net sales. Definitions of gross profit and gross margin vary across the industry and, as such, our metrics may not be comparable to other companies.

### **Income from Royalties and License Fees**

We license our *Carter's*, *OshKosh*, *Child of Mine*, *Just One You*, *Simple Joys*, and *Carter's My First Love* brands to partners to expand our product offerings to include bedding, cribs, diaper bags, footwear, gift sets, hair accessories, jewelry, outerwear, paper goods, socks, shoes, swimwear, and toys. These royalties are recorded as earned, based upon the sales of licensed products by licensees and reported as royalty income on the Company's consolidated statements of operations.

### **Advertising Expenses**

Advertising production costs and costs associated with communicating advertising that has been produced are expensed when the advertising event takes place. Certain other advertising costs where it is uncertain when the expected benefits would occur are expensed as incurred. Advertising expenses were \$102.8 million, \$75.6 million, and \$93.4 million for fiscal years 2021, 2020, and 2019, respectively, and are included in SG&A expenses on the Company's consolidated statement of operations. Deferred advertising costs for advertisements that have not yet occurred or for advertising services that have not yet been received were \$4.1 million and \$3.8 million at January 1, 2022 and January 2, 2021, respectively, and are included in Prepaid expenses and other current assets on the Company's consolidated balance sheets.

### **Stock-Based Compensation Arrangements**

The Company recognizes the cost resulting from all stock-based payment transactions in the financial statements at grant date fair value. Stock-based compensation expense is recognized over the requisite service period, net of estimated forfeitures. For performance awards containing retirement provisions, stock-based compensation expense is recognized over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal service period, or over the period in which the required performance period has been met. For awards containing retirement provisions that are granted to retirement eligible employees, stock-based compensation expense is recognized over the period in which the required performance has been met.

During the requisite service period, the Company also recognizes a deferred income tax benefit for the expense recognized for U.S. GAAP. At time of subsequent vesting, exercise, forfeiture, or expiration of an award, the difference between the Company's actual income tax deduction, if any, and the previously accrued income tax benefit is recognized in income tax expense/benefit during the current period.

### **Stock Options**

The Company determines the fair value of stock options using the Black-Scholes option pricing model, which requires the use of the following subjective assumptions:

- Volatility - This is a measure of the amount by which a stock price has fluctuated or is expected to fluctuate. The Company uses actual monthly historical changes in the market value of its stock covering the expected life of options being valued. An increase in the expected volatility will increase the fair value of the stock option and related compensation expense.
- Risk-free interest rate - This is the U.S. Treasury rate as of the grant date having a term equal to the expected term of the stock option. An increase in the risk-free interest rate will increase the fair value of the stock option and related compensation expense.
- Expected term - This is the period of time over which the stock options granted are expected to remain outstanding and is based on historical experience and estimated future exercise behavior. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. An increase in the expected term will increase the fair value of the stock option and the related compensation expense.

- Dividend yield - The Company estimates a dividend yield based on the current dividend amount as a percentage of the current stock price. An increase in the dividend yield will decrease the fair value of the stock option and the related compensation expenses.
- Forfeitures - The Company estimates forfeitures of stock-based awards based on historical experience and expected future activity.

Changes in these subjective assumptions can materially affect the estimate of fair value of stock-based compensation expense and the related amount recognized in the consolidated statements of operations.

#### ***Time-Based Restricted Stock Awards***

The fair value of time-based restricted stock awards is determined based on the quoted closing price of the Company's common stock on the date of grant and is recognized as compensation expense over the vesting term of the awards, net of estimated forfeitures.

#### ***Performance-Based Restricted Stock Awards***

The Company accounts for its performance-based restricted stock awards based on the quoted closing price of the Company's common stock on the date of grant and records stock-based compensation expense over the vesting term of the awards based on the probability that the performance criteria will be achieved, net of estimated forfeitures. For performance awards containing retirement provisions, stock-based compensation expense is recognized over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal service period, or over the period in which the required performance period has been met. For awards containing retirement provisions that are granted to retirement eligible employees, stock-based compensation expense is recognized over the period in which the required performance has been met. The Company reassesses the probability of vesting at each reporting period and adjusts stock-based compensation expense based on its probability assessment.

#### ***Stock Awards***

The fair value of stock granted to non-management board members is determined based on the quoted closing price of the Company's common stock on the date of grant. The Company records the stock-based compensation expense immediately as there are no vesting terms.

#### ***Income Taxes***

The accompanying consolidated financial statements reflect current and deferred tax provisions, in accordance with ASC 740, *Income Taxes*. The deferred tax provision is determined under the liability method. Deferred tax assets and liabilities are recognized based on differences between the book and tax basis of assets and liabilities using presently enacted tax rates. Deferred tax assets are a component of non-current Other assets in the Company's consolidated balance sheet. Valuation allowances are established when it is "more likely than not" that a deferred tax asset will not be recovered. The provision for income taxes is the sum of the amount of income taxes paid or payable for the year as determined by applying the provisions of enacted tax laws to the taxable income for that year, the net change during the year in deferred tax assets and liabilities, and the net change during the year in any valuation allowances.

The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. A company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. If it is more likely than not that a tax position would not be sustained, then no tax benefit would be recognized. Where applicable, associated interest and penalties are also recorded. Interest is recorded as a component of Interest expense and penalties, if any, are recorded within the provision for incomes taxes in the consolidated statements of operations and are classified on the consolidated balance sheets with the related liability for uncertain tax contingency liabilities.

#### ***Supplemental Cash Flow Information***

Interest paid in cash approximated \$59.0 million, \$55.1 million, and \$36.5 million for fiscal years 2021, 2020, and 2019, respectively. Income taxes paid in cash approximated \$115.3 million, \$54.7 million and \$67.6 million for fiscal years 2021, 2020, and 2019, respectively.

Additions to property, plant and equipment of approximately \$15.4 million, \$6.0 million, and \$1.2 million were excluded from capital expenditures on the Company's consolidated statements of cash flows for fiscal years 2021, 2020, and 2019, respectively, since these amounts were accrued and unpaid at the end of each respective fiscal year.

### **Earnings Per Share**

The Company calculates basic and diluted net income per common share under the two-class method for unvested share-based payment awards that contain participating rights to dividends or dividend equivalents (whether paid or unpaid).

Basic net income per share is calculated by dividing net income for the period by the weighted-average common shares outstanding for the period. Diluted net income per share includes the effect of dilutive instruments and uses the average share price for the period in determining the number of shares that are to be added to the weighted-average number of shares outstanding.

### **Open Market Repurchases of Common Stock**

Shares of the Company's common stock that are repurchased by the Company through open market transactions are retired. Through the end of fiscal 2021, all such open market repurchases have been at prices that exceeded the par value of the repurchased common stock, and the amounts of the purchase prices that exceeded par value were charged to additional paid-in capital or to retained earnings if the balance in additional paid-in capital was not sufficient.

### **Employee Benefit Plans**

The Company has several defined benefit plans. Various actuarial methods and assumptions are used in determining net pension and post-retirement costs and obligations. Key assumptions include the discount rate used to determine the present value of future benefits and the expected long-term rate of return on plan assets. The over-funded or under-funded status of the defined benefit plans is recorded as an asset or liability on the consolidated balance sheet. Any service costs that arise during the period are presented in the same statement line item as other employee compensation on the consolidated statement of operations. All other components of current period costs related to defined benefit plans, such as prior service costs and actuarial gains and losses, are presented in Other (income) expense, net on the consolidated statement of operations. The actuarial gains or losses that arise during the period are recognized as a component of comprehensive income, net of tax. These costs are then subsequently recognized as components of net periodic benefit cost in the consolidated statements of operations. Under the provisions of ASU No. 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*, the Company is permitted to use December 31 of each year, as opposed to the Company's last day of each fiscal year, as an alternate measurement date for its defined benefit plans.

### **Facility Closure and Severance Costs**

The Company records severance costs when the appropriate notifications have been made to affected employees or when the decision is made, if the benefits are contractual. When employees are required to work for a period before termination, the severance costs are recognized over the required service period. Relocation and recruitment costs are expensed as incurred. For operating leases, lease termination costs are recognized at fair value at the date the Company ceases to use the leased property. Useful lives assigned to fixed assets at the facility to be closed are revised based on the specifics of the exit plan, resulting in accelerated depreciation expense.

### **Seasonality**

The Company experiences seasonal fluctuations in its sales and profitability due to the timing of certain holidays and key retail shopping periods, typically resulting in lower sales and gross profit in the first half of its fiscal year. Accordingly, the Company's results of operations during the first half of the year may not be indicative of the results for the full year.

### **Recent Accounting Pronouncements**

#### ***To Be Adopted After Fiscal 2021***

#### ***Reference Rate Reform (ASU 2020-04)***

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The optional guidance is provided to ease the potential burden of accounting for reference rate reform. ASU 2020-04 is effective for all entities as of March 12, 2020 through December 31, 2022. The Company does not expect adoption of ASU 2020-04 to have a material impact on the Company's financial statements.

**NOTE 3 - REVENUE RECOGNITION**

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

**Disaggregation of Revenue**

The Company sells its products directly to consumers ("direct-to-consumer") and to other retail companies and partners that subsequently sell the products directly to their own retail customers. The Company also earns royalties from certain of its licensees. Disaggregated revenues from these sources for fiscal years 2021, 2020, and 2019 were as follows:

<i>(dollars in thousands)</i>	<b>Fiscal year ended January 1, 2022 (52 weeks)</b>			
	<b>U.S. Retail</b>	<b>U.S. Wholesale</b>	<b>International</b>	<b>Total</b>
Wholesale channel	\$ —	\$ 1,126,415	\$ 171,703	\$ 1,298,118
Direct-to-consumer	1,899,262	—	289,060	2,188,322
	<u>\$ 1,899,262</u>	<u>\$ 1,126,415</u>	<u>\$ 460,763</u>	<u>\$ 3,486,440</u>
Royalty income, net	\$ 8,541	\$ 15,808	\$ 4,332	\$ 28,681

<i>(dollars in thousands)</i>	<b>Fiscal year ended January 2, 2021 (53 weeks)</b>			
	<b>U.S. Retail</b>	<b>U.S. Wholesale</b>	<b>International</b>	<b>Total</b>
Wholesale channel	\$ —	\$ 996,088	\$ 120,244	\$ 1,116,332
Direct-to-consumer	1,671,644	—	236,358	1,908,002
	<u>\$ 1,671,644</u>	<u>\$ 996,088</u>	<u>\$ 356,602</u>	<u>\$ 3,024,334</u>
Royalty income, net	\$ 8,732	\$ 13,120	\$ 4,424	\$ 26,276

<i>(dollars in thousands)</i>	<b>Fiscal year ended December 28, 2019 (52 weeks)</b>			
	<b>U.S. Retail</b>	<b>U.S. Wholesale</b>	<b>International</b>	<b>Total</b>
Wholesale channel	\$ —	\$ 1,205,646	\$ 163,793	\$ 1,369,439
Direct-to-consumer	1,884,150	—	265,697	2,149,847
	<u>\$ 1,884,150</u>	<u>\$ 1,205,646</u>	<u>\$ 429,490</u>	<u>\$ 3,519,286</u>
Royalty income, net	\$ 12,990	\$ 17,670	\$ 3,977	\$ 34,637

**Accounts Receivable from Customers and Licensees**

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

<i>(dollars in thousands)</i>	<b>January 1, 2022</b>	<b>January 2, 2021</b>
Trade receivables from wholesale customers, net	\$ 233,928	\$ 180,830
Royalties receivable	5,769	5,733
Tenant allowances and other receivables	10,352	12,315
Total receivables	\$ 250,049	\$ 198,878
Less: Wholesale accounts receivable reserves <sup>(*)</sup>	(18,695)	(12,366)
Accounts receivable, net	<u>\$ 231,354</u>	<u>\$ 186,512</u>

(\*) Includes allowance for credit losses of \$7.3 million and \$5.9 million for the periods ended January 1, 2022 and January 2, 2021, respectively.

Information regarding Wholesale accounts receivable reserves is as follows:

<i>(dollars in thousands)</i>	<b>Wholesale accounts receivable reserves</b>	
<b>Balance at December 29, 2018</b>	\$	11,866
Additional provisions		9,047
Charges to reserve		(7,939)
Reclassification to Trade receivables <sup>(1)</sup>		(1,691)
<b>Balance at December 28, 2019</b>	\$	11,283
Additional provisions		9,625
Charges to reserve <sup>(2)</sup>		(8,542)
<b>Balance at January 2, 2021</b>	\$	12,366
Additional provisions		13,282
Charges to reserve		(6,953)
<b>Balance at January 1, 2022</b>	\$	18,695

(1) The Company reclassified \$1.7 million of customer support related items from Wholesale accounts receivable reserves into Trade receivables from wholesale customers, net for the period December 28, 2019.

(2) Charges to the reserve include total write-offs of \$6.5 million related to the bankruptcy of customers during fiscal 2020.

### **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:

<i>(dollars in thousands)</i>	<b>January 1, 2022</b>		<b>January 2, 2021</b>	
<b>Contract liabilities - current:</b>				
Unredeemed gift cards	\$	21,619	\$	18,300
Unredeemed customer loyalty rewards		5,659		5,241
Carter's credit card - upfront bonus <sup>(1)</sup>		714		714
<b>Total contract liabilities - current<sup>(2)</sup></b>	<b>\$</b>	<b>27,992</b>	<b>\$</b>	<b>24,255</b>
<b>Contract liabilities - non-current<sup>(3)</sup></b>	<b>\$</b>	<b>2,143</b>	<b>\$</b>	<b>2,857</b>
<b>Total contract liabilities</b>	<b>\$</b>	<b>30,135</b>	<b>\$</b>	<b>27,112</b>

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

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

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

#### **Composition of Contract Liabilities**

Unredeemed gift cards - the Company is obligated to transfer goods in the future to customers who have purchased gift cards. Periodic changes in the gift card contract liability result from the redemption of gift cards by customers and the recognition of estimated breakage revenue for those gift card balances that are not expected to be redeemed. The majority of our gift cards do not have an expiration date; however, all outstanding gift card balances are classified by the Company as current liabilities since gift cards are redeemable on demand by the valid holder. The majority of the Company's gift cards are redeemed within one year of issuance.

Unredeemed loyalty rewards - points and reward certificates earned by customers under the Company's loyalty program represent obligations of the Company to transfer goods to the customer upon redemption. Periodic changes in the loyalty program contract liability result from reward certificate redemptions and expirations. The earning and redemption cycles for our loyalty program are under one year in duration.



**CARTER'S, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - LEASES**

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

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

The following components of lease expense are included in SG&A expenses on the Company's consolidated statements of operations for the fiscal periods indicated:

<i>(dollars in thousands)</i>	<b>For the fiscal year ended</b>		
	<b>January 1, 2022</b>	<b>January 2, 2021</b>	<b>December 28, 2019</b>
Operating lease cost	\$ 166,481	\$ 180,056	\$ 179,982
Variable lease cost <sup>(*)</sup>	64,410	71,971	63,043
Net lease cost	<u>\$ 230,891</u>	<u>\$ 252,027</u>	<u>\$ 243,025</u>

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

Supplemental balance sheet information related to leases was as follows:

	<b>January 1, 2022</b>	<b>January 2, 2021</b>
Weighted average remaining operating lease term (years)	4.9	5.4
Weighted average discount rate for operating leases	3.26%	3.33%

Cash paid for amounts included in the measurement of operating lease liabilities in fiscal 2021 and fiscal 2020 was \$209.1 million and \$161.7 million, respectively.

Operating lease assets obtained in exchange for operating lease liabilities in fiscal 2021 and fiscal 2020 were \$39.6 million and \$62.6 million, respectively.

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

<i>(dollars in thousands)</i>	<b>Operating leases</b>
2022	\$ 164,338
2023	141,248
2024	113,584
2025	81,206
2026	57,194
After 2026	82,197
Total lease payments	<u>\$ 639,767</u>
Less: Interest	<u>(50,369)</u>
Present value of lease liabilities <sup>(*)</sup>	<u>\$ 589,398</u>

(\*) As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date to determine the present value of lease payments.

As of January 1, 2022, the minimum rental commitments for additional operating lease contracts, primarily for retail stores, that have not yet commenced are \$6.8 million. These operating leases will commence between fiscal year 2022 and fiscal year 2023 with lease terms of 3 years to 10 years.

**NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment, net consists of the following:

<i>(dollars in thousands)</i>	January 1, 2022	January 2, 2021
Land, building, and leasehold improvements	\$ 328,771	\$ 358,121
Fixtures, equipment, and computer hardware	280,022	308,260
Computer software	113,284	159,558
Marketing fixtures	4,551	9,819
Construction in progress	18,302	10,567
	744,930	846,325
Accumulated depreciation and amortization	(528,926)	(583,980)
Total	\$ 216,004	\$ 262,345

Depreciation and amortization expense related to property, plant, and equipment was approximately \$90.4 million, \$90.3 million, and \$92.2 million for fiscal years 2021, 2020, and 2019, respectively.

**NOTE 6 – GOODWILL AND OTHER INTANGIBLE ASSETS**

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

<i>(dollars in thousands)</i>	U.S. Retail	U.S. Wholesale	International	Total
<b>Balance at December 28, 2019</b>	\$ 83,934	\$ 74,454	\$ 70,638	\$ 229,026
Goodwill impairment <sup>(1)</sup>	—	—	(17,742)	(17,742)
Foreign currency impact	—	—	492	492
<b>Balance at January 2, 2021</b>	\$ 83,934	\$ 74,454	\$ 53,388	\$ 211,776
Foreign currency impact	—	—	247	247
<b>Balance at January 1, 2022<sup>(2)</sup></b>	\$ 83,934	\$ 74,454	\$ 53,635	\$ 212,023

- (1) In the first quarter of fiscal 2020, a charge of \$17.7 million was recorded to reflect the impairment of the value ascribed to the goodwill in the Other International reporting unit in the International segment.
- (2) Goodwill for the International reporting unit is net of accumulated impairment losses of \$17.7 million.

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

<i>(dollars in thousands)</i>	Weighted-average useful life	January 1, 2022			January 2, 2021		
		Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Carter's tradename	Indefinite	\$ 220,233	\$ —	\$ 220,233	\$ 220,233	\$ —	\$ 220,233
OshKosh tradename <sup>(1)</sup>	Indefinite	70,000	—	70,000	70,000	—	70,000
Skip Hop tradename <sup>(2)</sup>	Indefinite	15,000	—	15,000	15,000	—	15,000
Finite-life tradenames	5 - 20 years	3,911	1,501	2,410	3,911	1,251	2,660
Total tradenames, net		\$ 309,144	\$ 1,501	\$ 307,643	\$ 309,144	\$ 1,251	\$ 307,893
Skip Hop customer relationships	15 years	\$ 47,300	\$ 15,010	\$ 32,290	\$ 47,300	\$ 11,834	\$ 35,466
Carter's Mexico customer relationships	10 years	3,047	1,368	1,679	3,108	1,064	2,044
Total customer relationships, net		\$ 50,347	\$ 16,378	\$ 33,969	\$ 50,408	\$ 12,898	\$ 37,510

- (1) In fiscal 2020, a charge of \$13.6 million, \$1.6 million, and \$0.3 million was recorded on our indefinite-lived OshKosh tradename asset in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived OshKosh tradename asset.
- (2) In fiscal 2020, a charge of \$6.8 million, \$3.7 million, and \$0.5 million was 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 values of goodwill and indefinite-lived tradename assets are subject to annual impairment reviews as of the last day of each fiscal year. Between annual assessments, impairment reviews may also be triggered by any significant events or changes in circumstances affecting our business. Based upon our most recent annual assessment, performed as of January 1,

2022, using a qualitative assessment, there were no impairments in the values of goodwill or indefinite-lived or definite-lived intangible assets.

In the first quarter of fiscal 2020, the Company concluded that impairment indicators existed due to the decrease in the Company's market capitalization, lower than expected actual sales, and lower projected sales and profitability, primarily due to the impacts from the outbreak of COVID-19. As a result, during the first quarter of fiscal 2020, the Company conducted interim quantitative impairment assessments of 1) the goodwill ascribed to the Other International reporting unit recorded in connection with the allocation of goodwill to the newly created International segment as a result of the acquisition of Bonnie Togs in 2011 and 2) on the value of the Company's indefinite-lived *OshKosh* and *Skip Hop* tradename assets that was recorded in connection with the acquisition of OshKosh B'Gosh Inc. in July 2005 and Skip Hop Holdings, Inc. in February 2017, respectively.

The goodwill impairment assessment for the Other International reporting unit was performed in accordance with ASC 350, "*Intangibles--Goodwill and Other*" ("ASC 350") and compares the carrying value of the Other International reporting unit to its fair value. Consistent with prior practice, the fair value of the Other International reporting unit was determined using discounted cash flows ("income approach") and relevant data from guideline public companies ("market approach"). As a result of this assessment, a goodwill impairment charge of \$17.7 million was recorded to our Other International reporting unit in the International segment during the first quarter of fiscal 2020. The goodwill impairment charge recorded on our Other International reporting unit included charges of \$9.4 million, \$5.2 million, and \$3.1 million to Skip Hop, Carter's, and Carter's Mexico goodwill, respectively. The carrying value of the Company's goodwill for the Other International reporting unit as of January 1, 2022 was \$11.7 million.

The *OshKosh* and *Skip Hop* indefinite-lived tradename asset assessments were performed in accordance with ASC 350 and were determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of not having to license the tradename from another owner. Based on these assessments, charges of \$15.5 million and \$11.0 million were recorded during the first quarter of fiscal 2020 on our indefinite-lived *OshKosh* and *Skip Hop* tradename assets, respectively. The charge recorded on our indefinite-lived *OshKosh* tradename asset included charges of \$13.6 million, \$1.6 million, and \$0.3 million in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *OshKosh* tradename asset. The charge recorded on our indefinite-lived *Skip Hop* tradename asset included charges of \$6.8 million, \$3.7 million, and \$0.5 million 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 values of the Company's indefinite-lived *OshKosh* and *Skip Hop* tradename assets as of January 1, 2022 were \$70.0 million and \$15.0 million, respectively.

In the third quarter of fiscal 2019, the Company's Skip Hop business experienced lower than expected actual and projected sales and profitability due to lower domestic demand, including the loss of a significant customer that declared bankruptcy (Toys "R" Us), lower international demand and higher product costs primarily driven by tariffs imposed on products sourced from China. As a result, the Company conducted an interim impairment assessment in the third quarter of fiscal 2019 on the value of the Company's indefinite-lived *Skip Hop* tradename asset that was recorded in connection with the acquisition of Skip Hop Holdings, Inc. in February 2017. The indefinite-lived tradename asset assessment was performed in accordance with ASC 350, "*Intangibles--Goodwill and Other*" and was determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of our ownership of the tradename. Based on this assessment, a charge of \$30.8 million was recorded during the third quarter of fiscal 2019 on our indefinite-lived *Skip Hop* tradename asset. The charge included charges of \$19.1 million, \$10.5 million, and \$1.2 million 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.

Changes in the carrying values between comparative periods for goodwill related to the International segment were due to fluctuations in the foreign currency exchange rates between the Canadian and U.S. dollar that were used in the remeasurement process for preparing the Company's consolidated financial statements. The changes in the carrying values of goodwill for Skip Hop and Carter's Mexico and the changes in the carrying value of customer relationships for Carter's Mexico, including the related accumulated amortization, that were not attributable to amortization expense was also impacted by foreign currency exchange rate fluctuations.

Amortization expense for intangible assets subject to amortization was approximately \$3.7 million for each of fiscal years 2021, 2020, and 2019.

**CARTER'S, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

<i>(dollars in thousands)</i>	<b>Amortization expense</b>	
2022	\$	3,727
2023	\$	3,685
2024	\$	3,655
2025	\$	3,655
2026	\$	3,655

**NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME**

The components of Accumulated other comprehensive (loss) income consisted of the following:

<i>(dollars in thousands)</i>	<b>Pension liability adjustments</b>	<b>Post-retirement liability adjustments</b>	<b>Cumulative translation adjustments</b>	<b>Accumulated other comprehensive (loss) income</b>
<b>Balance at December 29, 2018</b>	\$ (9,562)	\$ 1,687	\$ (32,964)	\$ (40,839)
Reclassification of tax effects <sup>(*)</sup>	(1,880)	380	—	(1,500)
Fiscal year 2019 change	746	(483)	6,442	6,705
<b>Balance at December 28, 2019</b>	(10,696)	1,584	(26,522)	(35,634)
Fiscal year 2020 change	(2,197)	(144)	5,215	2,874
<b>Balance at January 2, 2021</b>	(12,893)	1,440	(21,307)	(32,760)
Fiscal year 2021 change	3,973	(115)	5	3,863
<b>Balance at January 1, 2022</b>	\$ (8,920)	\$ 1,325	\$ (21,302)	\$ (28,897)

(\*) In fiscal 2019, the Company reclassified \$1.5 million of tax benefits from accumulated other comprehensive loss to retained earnings for the tax effects resulting from the December 22, 2017 enactment of the Tax Cut and Jobs Act in accordance with the adoption of ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.

As of January 1, 2022 and January 2, 2021, the cumulative tax effect on the pension liability adjustments were \$2.8 million and \$4.0 million, respectively. As of January 1, 2022 and January 2, 2021, the cumulative tax effect on the post-retirement liability adjustments were approximately \$0.4 million and \$0.5 million, respectively.

For the fiscal years ended January 1, 2022 and January 2, 2021, amounts reclassified from Accumulated other comprehensive loss to the consolidated statements of operations consisted of amortization of actuarial gains and losses related to the Company's defined benefit retirement plans. Such amortization amounts are included in the net periodic cost or benefit recognized for these plans during the respective fiscal year. For additional information, see Note 11, *Employee Benefit Plans*, to the consolidated financial statements.

**NOTE 8 – LONG-TERM DEBT**

Long-term debt consisted of the following:

<i>(dollars in thousands)</i>	<b>January 1, 2022</b>	<b>January 2, 2021</b>
\$500 million, 5.500% Senior Notes due 2025	\$ 500,000	\$ 500,000
\$500 million, 5.625% Senior Notes due 2027	500,000	500,000
<b>Total senior notes</b>	<b>\$ 1,000,000</b>	<b>\$ 1,000,000</b>
Less: unamortized issuance-related costs for senior notes	(8,630)	(10,470)
Senior notes, net	\$ 991,370	\$ 989,530
Secured revolving credit facility	—	—
<b>Total long-term debt, net</b>	<b>\$ 991,370</b>	<b>\$ 989,530</b>

**Secured Revolving Credit Facility**

As of January 1, 2022, the Company had no outstanding borrowings under its secured revolving credit facility, exclusive of \$4.1 million of outstanding letters of credit. As of January 2, 2021, the Company had no outstanding borrowings under its secured revolving credit facility, exclusive of \$5.0 million of outstanding letters of credit. As of January 1, 2022 and January 2,

2021, there was approximately \$745.9 million and \$745.0 million available for future borrowing, respectively. All outstanding borrowings under the Company's secured revolving credit facility are classified as non-current liabilities on the Company's consolidated balance sheets due to contractual repayment terms under the credit facility.

***Terms of the Secured Revolving Credit Facility***

The Company's revolving credit facility provides for an aggregate credit line of \$750 million which includes a \$650 million U.S. dollar facility and a \$100 million multicurrency facility denominated in U.S. dollars, Canadian dollars, Euros, Pounds Sterling, or other currencies agreed to by the applicable lenders. The credit facility matures on September 21, 2023. 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.

On May 4, 2020, the Company, through its wholly owned subsidiary, The William Carter Company ("TWCC"), entered into Amendment No. 2 to its fourth amended and restated credit agreement ("Amendment No. 2"). Amendment No. 2 provided for, among other things, access to additional capital and increased flexibility under financial maintenance covenants, which the Company sought in part due to the unforeseen negative effects of the COVID-19 pandemic.

On April 21, 2021, the Company, through its wholly owned subsidiary, TWCC, entered into Amendment No. 3 to its fourth amended and restated credit agreement ("Amendment No. 3"). Among other things, Amendment No. 3 provided that through the remainder of the Restricted Period, which ended on the date the Company delivered its financial statements and associated certificates relating to the third quarter of fiscal 2021:

- we must have maintained a minimum liquidity (defined as cash-on-hand plus availability under the secured revolving credit facility) on the last day of each fiscal month of at least \$950 million (the "Revised Liquidity Requirement"), which was increased by \$250 million from \$700 million; and
- we were permitted to make additional restricted payments, including to pay cash dividends and repurchase common stock, in an amount not to exceed \$250 million, provided that (a) no default or event of default will have occurred and be continuing or would result from the payment and (b) after giving effect to the payment, we would have been in compliance with Revised Liquidity Requirement as of the last day of the most recent month.

Approximately \$0.2 million, including both bank fees and other third-party expenses, has been capitalized in connection with Amendment No. 3 and is being amortized over the remaining term of the secured revolving credit facility.

As of January 1, 2022, the Company's secured revolving credit facility returned to its pre-COVID 19 terms that were in effect prior to Amendment No. 2.

As of January 1, 2022, the interest rate margins applicable to the amended revolving credit facility were 1.125% for LIBOR (London Interbank Offered Rate) rate loans and 0.125% for base rate loans. There were no U.S. dollar borrowings or foreign currency borrowings outstanding on January 1, 2022 or January 2, 2021.

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

**Senior Notes**

***2020 Issuance of Senior Notes***

On May 11, 2020, TWCC issued \$500 million principal amount of senior notes at par, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025, all of which were outstanding as of January 1, 2022. TWCC received net proceeds from the offering of the senior notes of approximately \$494.5 million, after deducting underwriting fees, which TWCC used to repay borrowings outstanding under the Company's secured revolving credit facility. Approximately \$6.5 million, including both bank fees and other third-party expenses, has been capitalized in connection with the issuance and is being amortized over the term of the senior notes.

The senior notes are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. and certain domestic subsidiaries of TWCC. The guarantor subsidiaries are 100% owned directly or indirectly by Carter's, Inc. and all guarantees are joint, several and unconditional.

On and after May 15, 2022, TWCC may redeem all or part of the senior notes at the redemption prices (expressed as percentages of principal amount of the senior notes to be redeemed) set forth below, plus accrued and unpaid interest. The

redemption price is applicable when the redemption occurs during the twelve-month period beginning on May 15 of each of the years indicated is as follows:

Year	Percentage
2022	102.75 %
2023	101.38 %
2024 and thereafter	100.00 %

**2019 Redemption and Issuance of Senior Notes**

On March 14, 2019, TWCC redeemed \$400 million principal amount of senior notes, bearing interest at a rate of 5.25% per annum, and maturing on August 15, 2021, pursuant to the optional redemption provisions of the notes, which required that TWCC pay the outstanding principal plus accrued interest and an early redemption premium of 1.31% of the outstanding principal amounts of the senior notes. This debt redemption resulted in a loss on extinguishment of debt of \$7.8 million, consisting of \$5.2 million of early redemption premiums and \$2.6 million of unamortized debt issuance costs.

Concurrently, TWCC issued \$500 million principal amount of senior notes at par, bearing interest at a rate of 5.625% per annum, and maturing on March 15, 2027. TWCC received net proceeds from the offering of the senior notes of approximately \$494.8 million, after deducting underwriting fees and other expenses, which TWCC used to redeem the senior notes discussed above and repay borrowings outstanding under the Company's secured revolving credit facility. Approximately \$5.8 million, including both bank fees and other third-party expenses, was capitalized in connection with the issuance and is being amortized over the term of the senior notes.

On and after March 15, 2022, TWCC may redeem all or part of the senior notes at the redemption prices (expressed as percentages of principal amount of the senior notes to be redeemed) set forth below, plus accrued and unpaid interest. The redemption price is applicable when the redemption occurs during the twelve-month period beginning on March 15 of each of the years indicated is as follows:

Year	Percentage
2022	102.81 %
2023	101.41 %
2024 and thereafter	100.00 %

The senior notes mentioned above are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. and certain domestic subsidiaries of TWCC. The guarantor subsidiaries are 100% owned directly or indirectly by Carter's, Inc. and all guarantees are joint, several and unconditional.

The indenture governing the senior notes provides that upon the occurrence of specific kinds of changes of control, unless a redemption notice with respect to all the outstanding senior notes has previously or concurrently been mailed or delivered, TWCC will be required to make an offer to purchase the senior notes at 101% of their principal amount, plus accrued and unpaid interest to (but excluding) the date of purchase.

The indenture governing the senior notes includes a number of covenants, that, among other things and subject to certain exceptions, restrict TWCC's ability and the ability of certain of its subsidiaries to: (a) incur certain types of indebtedness that is secured by a lien; (b) enter into certain sale and leaseback transactions; and (c) consolidate or merge with or into, or sell substantially all of the issuer's assets to, another person, under certain circumstances. Terms of the notes contain customary affirmative covenants and provide for events of default which, if certain of them occur, would permit the trustee or the holders of at least 25.0% in principal amount of the then total outstanding senior notes to declare all amounts owing under the notes to be due and payable. Carter's, Inc. is not subject to these covenants.

**NOTE 9 – COMMON STOCK**

**Open Market Share Repurchases**

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

**CARTER'S, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	<b>For the fiscal year ended</b>		
	<b>January 1, 2022</b>	<b>January 2, 2021</b>	<b>December 28, 2019</b>
Number of shares repurchased	2,967,619	474,684	2,107,472
Aggregate cost of shares repurchased ( <i>dollars in thousands</i> )	\$ 299,339	\$ 45,255	\$ 196,910
Average price per share	\$ 100.87	\$ 95.34	\$ 93.43

The total remaining capacity under outstanding repurchase authorizations as of January 1, 2022 was approximately \$351.1 million, exclusive of the February 2022 share repurchase authorization, based on settled repurchase transactions. The share repurchase authorizations have no expiration dates.

In the third quarter of fiscal 2021, the Company reinstated its common stock share repurchase program. The Company had previously announced the suspension of its common stock share repurchase program, in connection with the COVID-19 pandemic, at the end of the first quarter in fiscal 2020. 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 revolving credit facility, market conditions, stock price, other investment priorities, and other factors.

**Dividends**

On February 24, 2022, the Company's Board of Directors authorized a quarterly cash dividend payment of \$0.75 per common share, payable on March 18, 2022 to shareholders of record at the close of business on March 8, 2022.

The Board of Directors declared and the Company paid quarterly cash dividends of \$0.60 per common share in the first quarter of fiscal 2020. On May 1, 2020, in connection with the COVID-19 pandemic, the Company's Board of Directors suspended the quarterly cash dividend. As a result, the Company's Board of Directors did not declare and the Company did not pay cash dividends in the second, third, or fourth quarters of fiscal 2020, or in the first quarter of fiscal 2021. The Board of Directors declared and the Company paid quarterly cash dividends of \$0.40 per common share in each of the second and third quarters of fiscal 2021 and \$0.60 per common share in the fourth quarter of fiscal 2021.

The Board of Directors will evaluate future dividend declarations based on a number of factors, including restrictions under the Company's 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 8, *Long-Term Debt*, to the consolidated financial statements.

**NOTE 10 – STOCK-BASED COMPENSATION**

Under the Company's Amended and Restated Equity Incentive Plan (the "Plan"), the Compensation Committee of the Board of Directors may award incentive stock options, stock appreciation rights, restricted stock, unrestricted stock, stock deliverable on a deferred basis (including restricted stock units), and performance-based stock awards.

As of January 1, 2022, the maximum number of shares of stock available under the Plan was 18,778,392, and there were 3,027,361 remaining shares available for grant under the Plan. The Plan makes a provision for the treatment of awards upon termination of service or in the case of a merger or similar corporate transaction. Participation in the Plan is limited to members of the Company's Board of Directors, executive officers and other key employees.

The limit on shares available under the Plan, the individual limits, and other award terms are subject to adjustment to reflect stock splits or stock dividends, combinations, and certain other events. All stock options issued under the Plan expire no later than ten years from the date of grant. The Company believes that the current level of authorized shares is sufficient to satisfy future grants for the foreseeable future.

**CARTER'S, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company recorded stock-based compensation cost as follows:

<i>(dollars in thousands)</i>	<b>For the fiscal years ended</b>		
	<b>January 1, 2022</b>	<b>January 2, 2021</b>	<b>December 28, 2019</b>
Stock options	\$ 1,347	\$ 2,694	\$ 4,070
Restricted stock:			
Time-based awards	14,756	10,468	9,432
Performance-based awards	3,608	(1,927)	1,552
Stock awards	1,318	1,595	1,475
<b>Total</b>	<b>\$ 21,029</b>	<b>\$ 12,830</b>	<b>\$ 16,529</b>

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 fiscal 2020, the achievement of performance target estimates was revised resulting in a reversal of previously recognized stock-based compensation expense for outstanding performance-based awards.

**Stock Options**

Stock options vest in equal annual installments over a four-year period. The Company issues new shares to satisfy stock option exercises. There were no stock options granted in fiscal 2021, 2020, and 2019.

Changes in the Company's stock options for the fiscal year ended January 1, 2022 were as follows:

	<b>Number of shares</b>	<b>Weighted- average exercise price</b>	<b>Weighted-average remaining contractual terms (years)</b>	<b>Aggregate intrinsic value (in thousands)</b>
<b>Outstanding, January 2, 2021</b>	860,711	\$ 84.31		
Granted <sup>(*)</sup>	—	\$ —		
Exercised	(178,803)	\$ 61.49		
Forfeited	(7,019)	\$ 115.11		
Expired	(16,223)	\$ 118.88		
<b>Outstanding, January 1, 2022</b>	<b>658,666</b>	<b>\$ 89.32</b>	<b>4.25</b>	<b>\$ 10,827</b>
<b>Vested and expected to vest, January 1, 2022</b>	657,957	\$ 89.29	4.25	\$ 10,825
<b>Exercisable, January 1, 2022</b>	617,715	\$ 87.34	4.12	\$ 10,814

(\*) The Company did not grant any stock options in fiscal 2021.

The intrinsic value of stock options exercised during the fiscal years ended January 1, 2022, January 2, 2021, and December 28, 2019 was approximately \$7.8 million, \$8.2 million, and \$13.3 million, respectively. At January 1, 2022, there was approximately \$0.2 million of unrecognized compensation cost (net of estimated forfeitures) related to stock options, which is expected to be recognized over a weighted-average period of approximately 0.2 years.

**Restricted Stock Awards**

Restricted stock awards issued under the Plan vest based upon: 1) continued service (time-based) or 2) a combination of continued service and performance targets (performance-based).



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes activity related to all restricted stock awards during the fiscal year ended January 1, 2022:

	Restricted stock awards	Weighted-average grant-date fair value
<b>Outstanding, January 2, 2021</b>	462,537	\$ 101.87
Granted	325,322	\$ 98.28
Vested	(116,238)	\$ 99.32
Forfeited	(126,908)	\$ 110.21
<b>Outstanding, January 1, 2022</b>	<u>544,713</u>	<u>\$ 98.33</u>

During fiscal 2020, a total of 140,345 shares of restricted stock vested with a weighted-average fair value of \$89.80 per share. During fiscal 2019, a total of 131,924 shares of restricted stock vested with a weighted-average fair value of \$93.03 per share.

At January 1, 2022, there was approximately \$30.9 million of unrecognized compensation cost (net of estimated forfeitures) related to all restricted stock awards which is expected to be recognized over a weighted-average period of approximately 2.5 years.

***Time-based Restricted Stock Awards***

Time-based restricted stock awards vest in equal annual installments or cliff vest after a three-year or four-year period. During fiscal years 2021, 2020, and 2019, a total of 116,238 shares, 125,209 shares, and 102,492 shares, respectively, of time-based restricted stock vested with a weighted-average fair value of \$99.32 per share, \$90.52 per share, and \$93.70 per share, respectively. At January 1, 2022, there was approximately \$30.7 million of unrecognized compensation cost (net of estimated forfeitures) related to time-based restricted stock which is expected to be recognized over a weighted-average period of approximately 2.5 years.

***Performance-based Restricted Stock Awards***

Fiscal year	Number of shares granted	Weighted-average fair value per share
2019	60,700	\$ 88.87
2020	58,320	\$ 108.76
2021(*)	—	\$ —

(\*) The Company did not grant any performance-based restricted stock awards in fiscal 2021.

Performance-based restricted stock awards cliff vest after a three-year period, subject to the achievement of the performance target. During the fiscal year ended January 1, 2022, no performance shares vested. As of January 1, 2022, a total of 56,814 performance shares were unvested with a weighted-average fair value of \$88.87 per share. Vesting of these 56,814 performance shares is based on the performance targets for the shares granted in fiscal 2019. As of January 1, 2022, there was \$0.2 million unrecognized compensation cost related to the unvested performance-based restricted stock awards based on the current estimates of the number of awards that will vest.

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. For performance awards containing retirement provisions, stock-based compensation expense is recognized over the period from the grant date to the date retirement eligibility is achieved and required performance has been met, if that is expected to occur during the nominal service period. For awards containing retirement provisions that are granted to retirement eligible employees, stock-based compensation expense is recognized over the period in which the required performance has been met.

**Stock Awards**

Included in restricted stock awards are grants to non-management members of the Company's Board of Directors. At issuance, these awards were fully vested and issued as shares of the Company's common stock. During fiscal years 2021, 2020, and 2019, such awards were as follows:

Fiscal year	Number of shares issued	Fair value per share	Aggregate value (in thousands)
2019	16,097	\$ 91.63	\$ 1,475
2020	21,362	\$ 74.67	\$ 1,595
2021	13,037	\$ 101.09	\$ 1,318

The Company received no proceeds from the issuance of these shares.

**NOTE 11 – EMPLOYEE BENEFIT PLANS**

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

**OshKosh B'Gosh Pension Plan**

**Funded Status**

The retirement benefits under the OshKosh B'Gosh pension plan were frozen as of December 31, 2005. A reconciliation of changes in the projected pension benefit obligation and plan assets is as follows:

<i>(dollars in thousands)</i>	For the fiscal year ended	
	January 1, 2022	January 2, 2021
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of year	\$ 74,128	\$ 68,331
Interest cost	1,818	2,171
Actuarial (gain) loss	(2,405)	6,666
Benefits paid	(2,666)	(3,040)
Projected benefit obligation at end of year	<u>\$ 70,875</u>	<u>\$ 74,128</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 65,417	\$ 61,961
Actual return on plan assets	5,938	6,496
Benefits paid	(2,666)	(3,040)
Fair value of plan assets at end of year	<u>\$ 68,689</u>	<u>\$ 65,417</u>
<b>Unfunded status</b>	<u>\$ 2,186</u>	<u>\$ 8,711</u>

The accumulated benefit obligation is equal to the projected benefit obligation as of January 1, 2022 and January 2, 2021 because the plan is frozen. The unfunded status is included in Other long-term liabilities in the Company's consolidated balance sheet. The Company does not expect to make any contributions to the OshKosh B'Gosh pension plan during fiscal 2022 as the plan's funding exceeds the minimum funding requirements. The actuarial gain in fiscal 2021 was primarily attributable to a higher discount rate, and the actuarial loss incurred in fiscal 2020 was primarily attributable to a lower discount rate.

**Net Periodic Pension Cost and Changes Recognized in Other Comprehensive Income**

The components of net periodic pension cost recognized in the statement of operations and changes recognized in other comprehensive income were as follows:

(dollars in thousands)	For the fiscal year ended		
	January 1, 2022	January 2, 2021	December 28, 2019
<b>Recognized in the statement of operations:</b>			
Interest cost	\$ 1,818	\$ 2,171	\$ 2,432
Expected return on plan assets	(3,577)	(3,217)	(2,613)
Amortization of net loss <sup>(*)</sup>	428	510	795
Net periodic pension (benefit) cost	\$ (1,331)	\$ (536)	\$ 614
<b>Changes recognized in other comprehensive income:</b>			
Net (gain) loss arising during the fiscal year	\$ (4,765)	\$ 3,387	\$ (182)
Amortization of net loss <sup>(*)</sup>	(428)	(510)	(795)
Total changes recognized in other comprehensive income	\$ (5,193)	\$ 2,877	\$ (977)
<b>Total net periodic cost and changes recognized in other comprehensive income</b>	<b>\$ (6,524)</b>	<b>\$ 2,341</b>	<b>\$ (363)</b>

(\*) Represents pre-tax amounts reclassified from accumulated other comprehensive loss. For fiscal 2022, approximately \$0.2 million is expected to be reclassified from accumulated other comprehensive loss to a component of net periodic pension cost.

**Assumptions**

The actuarial assumptions used in determining the benefit obligation and net periodic pension cost for our pension plan is presented in the following table:

<b>Benefit obligation</b>	<b>2021</b>	<b>2020</b>	
Discount rate	2.75%	2.50%	
<b>Net periodic pension cost</b>			
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Discount rate	2.50%	3.25%	4.00%
Expected long-term rate of return on plan assets	6.00%	6.00%	5.50%

The discount rates used at January 1, 2022, January 2, 2021, and December 28, 2019 were determined with consideration given to the FTSE Pension Liability Index and the Bloomberg US Aggregate AA Bond Index, adjusted for the timing of expected plan distributions. The Company believes these indexes reflect a risk-free rate consistent with a portfolio of high quality debt instruments with maturities that are comparable to the timing of the expected payments under the plan. The expected long-term rate of return assumption considers historic returns adjusted for changes in overall economic conditions that may affect future returns and a weighting of each investment class.

A 0.25% change in the assumed discount rate would result in an increase or decrease in the amount of the pension plan's projected benefit obligation of approximately \$2.3 million.

The Company currently expects benefit payments for its defined benefit pension plans as follows for the next ten fiscal years:

(dollars in thousands)	
2022	\$ 2,900
2023	\$ 2,980
2024	\$ 3,170
2025	\$ 3,350
2026	\$ 3,610
2027-2031	\$ 19,050

**Plan Assets**

The Company's investment strategy is to invest in a well-diversified portfolio consisting of mutual funds or group annuity contracts that minimize concentration of risks by utilizing a variety of asset types, fund strategies, and fund managers. The target allocation for plan assets is 60% bond funds, 36% equity securities, and 4% real estate investments. The plan expects to gradually reduce its equity exposure.

The Company's investment policy anticipates a rate of return sufficient to fund pension plan benefits while minimizing the risk to the Company of additional funding. To calculate net periodic pension cost for the next fiscal year, the Company will use an expected long-term rate of return on plan assets of 5.50%. The Company believes that this annual return on plan assets can be achieved based on actual returns over a long-term basis, the current allocation, and investment strategy.

Equity securities primarily include funds invested in large-cap and mid-cap companies, primarily located in the U.S., with a small exposure to international equities. Fixed income securities include funds holding corporate bonds of companies from diverse industries, and U.S. Treasuries. Real estate funds include investments in actively managed mutual funds that invest in real estate.

The fair value of the Company's pension plan assets at January 1, 2022 and January 2, 2021, by asset category, were as follows:

<i>(dollars in thousands)</i> <b>Asset category</b>	<b>January 1, 2022</b>			<b>January 2, 2021</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
Cash and cash equivalents	\$ 1,370	\$ 1,370	\$ —	\$ 644	\$ 644	\$ —
<b>Equity securities:</b>						
U.S. Large-Cap blend <sup>(1)</sup>	7,508	7,508	—	9,006	9,006	—
U.S. Large-Cap growth	3,390	3,390	—	4,105	4,105	—
U.S. Mid-Cap growth	3,426	3,426	—	3,913	3,913	—
U.S. Small-Cap blend	2,054	2,054	—	2,608	2,608	—
International blend	8,200	8,200	—	9,882	9,882	—
<b>Fixed income securities:</b>						
Corporate bonds <sup>(2)</sup>	39,970	39,746	224	31,995	31,751	244
Real estate <sup>(3)</sup>	2,771	2,771	—	3,264	3,264	—
	<u>\$ 68,689</u>	<u>\$ 68,465</u>	<u>\$ 224</u>	<u>\$ 65,417</u>	<u>\$ 65,173</u>	<u>\$ 244</u>

(1) This category comprises low-cost equity index funds not actively managed that track the Standard & Poor's 500 Index.

(2) This category invests in both U.S. Treasuries and mid-term corporate debt from U.S. issuers from diverse industries.

(3) This category represents an investment in a mutual fund that invests primarily in real estate securities, including common stocks, preferred stock and other equity securities issued by real estate companies.

**Post-retirement Life and Medical Plan**

Under a defined benefit plan frozen in 1991, the Company offers a comprehensive post-retirement medical plan to current and certain future retirees and their spouses. The Company also offers life insurance to current and certain future retirees. Employee contributions are required as a condition of participation for both medical benefits and life insurance and the Company's liabilities are net of these expected employee contributions.

**Accumulated Post-Retirement Benefit Obligation**

The following is a reconciliation of the accumulated post-retirement benefit obligation ("APBO") under this plan:

(dollars in thousands)	For the fiscal years ended	
	January 1, 2022	January 2, 2021
APBO at beginning of fiscal year	\$ 2,998	\$ 3,311
Service cost	15	25
Interest cost	57	94
Actuarial (gain) loss	(140)	(162)
Plan participants' contribution	20	9
Benefits paid	(288)	(279)
APBO at end of fiscal year	\$ 2,662	\$ 2,998

Approximately \$2.4 million and \$2.7 million of the APBO at the end of fiscal 2021 and 2020, respectively, were classified as other long term liabilities in the Company's consolidated balance sheets.

**Net Periodic Post-Retirement Benefit Cost and Changes Recognized in Other Comprehensive Income**

The components of net periodic post-retirement benefit cost recognized in the statement of operations and changes recognized in other comprehensive income were as follows:

(dollars in thousands)	For the fiscal year ended		
	January 1, 2022	January 2, 2021	December 28, 2019
<b>Recognized in the statement of operations:</b>			
Service cost	\$ 15	\$ 25	\$ 21
Interest cost	57	94	123
Amortization of net gain <sup>(*)</sup>	(295)	(345)	(396)
Net periodic post-retirement benefit (income) cost	\$ (223)	\$ (226)	\$ (252)
<b>Changes recognized in other comprehensive income:</b>			
Net (gain) loss arising during the fiscal year	\$ (140)	\$ (162)	\$ 238
Amortization of net gain <sup>(*)</sup>	295	345	396
Total changes recognized in other comprehensive income	\$ 155	\$ 183	\$ 634
<b>Total net periodic post-retirement benefit (income) cost and changes recognized in other comprehensive income</b>	<b>\$ (68)</b>	<b>\$ (43)</b>	<b>\$ 382</b>

(\*) Represents pre-tax amounts reclassified from accumulated other comprehensive loss. For fiscal 2022, approximately \$0.3 million is expected to be reclassified from accumulated other comprehensive loss to a component of net periodic post-retirement benefit cost.

**Assumptions**

The actuarial computations utilized the following assumptions, using year-end measurement dates:

<u>Post-retirement benefit obligation</u>	2021	2020	
Discount rate	2.50%	2.00%	
<u>Net periodic post-retirement benefit cost</u>	2021	2020	2019
Discount rate	2.00%	3.00%	4.00%

The discount rates used at January 1, 2022, January 2, 2021, and December 28, 2019, were determined with primary consideration given to the FTSE Pension Discount Curve and Liability Index adjusted for the timing of expected plan distributions. The Company believes this index reflects a risk-free rate with maturities that are comparable to the timing of the expected payments under the plan.

The effects on the Company's plan of all future increases in health care costs are borne primarily by employees; accordingly, increasing medical costs are not expected to have any material effect on the Company's future financial results.

The Company's contribution for these post-retirement benefit obligations was approximately \$0.3 million for fiscal years 2021, 2020, and 2019. The Company expects that its contribution and benefit payments for post-retirement benefit obligations will be approximately \$0.3 million for fiscal years 2022 and 2023, and approximately \$0.2 million for fiscal years 2024, 2025, and 2026. For the five years subsequent to fiscal 2026, the aggregate contributions and benefit payments for post-retirement benefit obligations is expected to be approximately \$0.8 million. The Company does not pre-fund this plan and as a result there are no plan assets.

#### Deferred Compensation Plan

The Company maintains a deferred compensation plan allowing voluntary salary and incentive compensation deferrals for qualifying employees as permitted by the Internal Revenue Code. Participant deferrals earn investment returns based on a select number of investment options, including equity, debt, and real estate mutual funds. The Company invests comparable amounts in marketable securities to mitigate the risk associated with the investment return on the employee deferrals.

#### Defined Contribution Plan

The Company also sponsors defined contribution savings plans in the United States and Canada. The U.S. plan covers employees who are at least 21 years of age and have completed one calendar month of service and, if part-time, work a minimum of one thousand hours of service within the one-year period following the commencement of employment or during any subsequent calendar year. The plan provides for a discretionary employer match of employee contributions. The Company's expense for the U.S. defined contribution savings plan totaled approximately \$16.1 million, \$7.7 million, and \$8.0 million for the fiscal years ended January 1, 2022, January 2, 2021, and December 28, 2019, respectively. Expenses related to the Canadian defined contribution savings plan were approximately \$0.3 million in fiscal year 2021, \$0.2 million in fiscal year 2020, and \$0.1 million in fiscal year 2019.

#### NOTE 12 – INCOME TAXES

##### Provision for Income Taxes

The provision for income taxes consisted of the following:

<i>(dollars in thousands)</i>	For the fiscal year ended		
	January 1, 2022	January 2, 2021	December 28, 2019
<b>Current tax provision:</b>			
Federal	\$ 75,408	\$ 31,085	\$ 50,162
State	16,905	6,331	10,548
Foreign	19,761	11,105	16,740
Total current provision	<u>\$ 112,074</u>	<u>\$ 48,521</u>	<u>\$ 77,450</u>
<b>Deferred tax provision (benefit):</b>			
Federal	\$ (10,541)	\$ (18,449)	\$ (10,775)
State	(2,428)	(3,741)	(1,882)
Foreign	(563)	(1,064)	(643)
Total deferred provision	<u>(13,532)</u>	<u>(23,254)</u>	<u>(13,300)</u>
Total provision	<u>\$ 98,542</u>	<u>\$ 25,267</u>	<u>\$ 64,150</u>

The foreign portion of the tax position substantially relates to the Company's international operations in Canada, Hong Kong and Mexico, in addition to foreign tax withholdings related to the Company's foreign royalty income.

The Company plans to repatriate undistributed earnings from Hong Kong and has provided for deferred income taxes related to these earnings. Since the current U.S. tax regime taxes foreign earnings in the year earned, taxes associated with repatriation are not material. Deferred income taxes have not been provided for undistributed foreign earnings from Canada or Mexico, or any additional outside basis difference inherent in all foreign entities, as these amounts continue to be indefinitely reinvested in foreign operations. Total undistributed earnings from the Company's subsidiaries in Canada and Mexico amounted to approximately \$85.5 million. Unrecognized deferred tax liability related to undistributed earnings from the Company's subsidiaries in Canada and Mexico is estimated to be approximately \$3.6 million, based on applicable withholding taxes, levels of foreign income previously taxed in the U.S. and applicable foreign tax credit limitations. The company accounts for the

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additional U.S. income tax on its foreign earnings under Global Intangible Low-Taxed Income (“GILTI”) as a period expense in the period in which additional tax is due.

The components of income before income taxes were as follows:

<i>(dollars in thousands)</i>	For the fiscal year ended		
	January 1, 2022	January 2, 2021	December 28, 2019
Domestic	\$ 333,900	\$ 73,525	\$ 225,488
Foreign	104,390	61,459	102,464
<b>Total</b>	<b>\$ 438,290</b>	<b>\$ 134,984</b>	<b>\$ 327,952</b>

**Effective Rate Reconciliation**

The difference between the Company’s effective income tax rate and the federal statutory tax rate is reconciled below:

	For the fiscal year ended		
	January 1, 2022	January 2, 2021	December 28, 2019
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal income tax benefit	3.0 %	2.7 %	2.5 %
Impact of foreign operations	(1.8)%	(4.8)%	(2.4)%
Settlement of uncertain tax positions	(0.3)%	(1.3)%	(0.7)%
Benefit from stock-based compensation	(0.3)%	(1.1)%	(0.8)%
Goodwill impairments and other	0.9 %	2.2 %	— %
<b>Total</b>	<b>22.5 %</b>	<b>18.7 %</b>	<b>19.6 %</b>

The Company and its subsidiaries file a consolidated United States federal income tax return, as well as separate and combined income tax returns in numerous state and foreign jurisdictions. In most cases, the Company is no longer subject to U.S. tax authority examinations for years prior to fiscal 2018.

**Deferred Taxes**

The following table reflects the Company’s calculation of the components of deferred tax assets and liabilities as of January 1, 2022 and January 2, 2021.

<i>(dollars in thousands)</i>	January 1, 2022	January 2, 2021
<b>Deferred tax assets:</b>	Assets (Liabilities)	
Accounts receivable allowance	\$ 7,026	\$ 4,072
Inventory	11,923	11,775
Accrued liabilities	22,226	13,807
Equity-based compensation	3,410	5,039
Deferred employee benefits	5,144	7,928
Leasing liabilities	97,269	130,776
Other	3,845	4,961
<b>Total deferred tax assets</b>	<b>150,843</b>	<b>178,358</b>
<b>Deferred tax liabilities:</b>		
Depreciation	(26,472)	(38,777)
Leasing assets	(80,818)	(107,269)
Tradename and licensing agreements	(76,275)	(76,409)
Other	(5,388)	(5,593)
<b>Total deferred tax liabilities</b>	<b>(188,953)</b>	<b>(228,048)</b>
<b>Net deferred tax liability</b>	<b>\$ (38,110)</b>	<b>\$ (49,690)</b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Amounts recognized in the consolidated balance sheets:

<i>(dollars in thousands)</i>	<b>January 1, 2022</b>	<b>January 2, 2021</b>
	Assets (Liabilities)	
Deferred tax assets	\$ 2,800	\$ 3,080
Deferred tax liabilities	(40,910)	(52,770)
Net deferred tax liability	<u>\$ (38,110)</u>	<u>\$ (49,690)</u>

**Uncertain Tax Positions**

The following is a reconciliation of the beginning and ending amount of unrecognized tax benefits:

<i>(dollars in thousands)</i>		
<b>Balance at December 29, 2018</b>	\$	13,917
Additions based on tax positions related to fiscal 2019		2,197
Reductions for lapse of statute of limitations		(2,191)
<b>Balance at December 28, 2019</b>	\$	13,923
Additions based on tax positions related to fiscal 2020		760
Reductions for prior year tax positions		(104)
Reductions for lapse of statute of limitations		(2,056)
<b>Balance at January 2, 2021</b>	\$	12,523
Additions based on tax positions related to fiscal 2021		810
Reductions for prior year tax positions		(2,207)
Reductions for lapse of statute of limitations		(2,270)
<b>Balance at January 1, 2022</b>	<u>\$</u>	<u>8,856</u>

As of January 1, 2022, the Company had gross unrecognized tax benefits of approximately \$8.9 million, of which \$7.5 million, if ultimately recognized, will affect the Company's effective tax rate in the period 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. Because of deferred tax accounting, changes in the timing of these deductions would not affect the annual effective tax rate, but would accelerate the payment of cash to the taxing authorities.

Included in the reserves for unrecognized tax benefits are approximately \$3.1 million of reserves for which the statute of limitations is expected to expire within the next fiscal year. If these tax benefits are ultimately recognized, such recognition, net of federal income taxes, may affect the annual effective tax rate for fiscal 2022 and the effective tax rate in the quarter in which the benefits are recognized.

The Company recognizes interest related to unrecognized tax benefits as a component of interest expense and penalties related to unrecognized tax benefits as a component of income tax expense. During fiscal 2021, 2020, and 2019, expense recorded on uncertain tax positions was approximately \$0.4 million, \$0.4 million, and \$0.5 million, respectively. The Company had accrued interest on uncertain tax positions of approximately \$1.8 million and \$2.7 million as of January 1, 2022 and January 2, 2021, respectively.



**NOTE 13 – EARNINGS PER SHARE**

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

	For the fiscal year ended		
	January 1, 2022 (52 weeks)	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)
<b>Weighted-average number of common and common equivalent shares outstanding:</b>			
Basic number of common shares outstanding	42,853,009	43,242,967	44,402,438
Dilutive effect of equity awards	149,619	164,754	305,514
Diluted number of common and common equivalent shares outstanding	<u>43,002,628</u>	<u>43,407,721</u>	<u>44,707,952</u>
<b>Earnings per share:</b>			
<i>(dollars in thousands, except per share data)</i>			
<b>Basic net income per common share:</b>			
Net income	\$ 339,748	\$ 109,717	\$ 263,802
Income allocated to participating securities	(4,113)	(1,118)	(2,430)
Net income available to common shareholders	<u>\$ 335,635</u>	<u>\$ 108,599</u>	<u>\$ 261,372</u>
Basic net income per common share	<u>\$ 7.83</u>	<u>\$ 2.51</u>	<u>\$ 5.89</u>
<b>Diluted net income per common share:</b>			
Net income	\$ 339,748	\$ 109,717	\$ 263,802
Income allocated to participating securities	(4,102)	(1,115)	(2,419)
Net income available to common shareholders	<u>\$ 335,646</u>	<u>\$ 108,602</u>	<u>\$ 261,383</u>
Diluted net income per common share	<u>\$ 7.81</u>	<u>\$ 2.50</u>	<u>\$ 5.85</u>
Anti-dilutive shares excluded from dilutive earnings per share calculations <sup>(1)</sup>	176,475	564,131	351,777

(1) The volume of antidilutive shares is, in part, due to the related unamortized compensation costs.

The Company grants shares of its common stock in the form of restricted stock awards to certain key employees under the Company's Amended and Restated Equity Incentive Plan (see Note 10, *Stock-based Compensation*, to the consolidated financial statements). Prior to vesting of the restricted stock awards, the grant recipients are entitled to receive non-forfeitable cash dividends if the Company declares and pays dividends on the Company's common stock. Accordingly, unvested shares of the Company's restricted stock awards are deemed to be participating securities for purposes of computing diluted earnings per share (EPS), and therefore the Company's diluted EPS represents the lower of the amounts calculated under the treasury stock method or the two-class method of calculating diluted EPS.

**NOTE 14 – SEGMENT INFORMATION**

The Company reports segment information based upon a "management approach." The management approach refers to the internal reporting that is used by management for making operating decisions and assessing the performance of the Company's reportable segments. The Company reports its corporate expenses separately as they are not included in the internal measures of segment operating performance used by the Company to measure the underlying performance of its reportable segments.

Segment results include the direct costs of each segment and all other costs are allocated based upon detailed estimates and analysis of actual time and expenses incurred to support the operations of each segment or units produced or sourced to support each segment's revenue. Certain costs, including incentive compensation for certain employees, and various other general corporate costs that are not specifically allocable to segments, are included in corporate expenses below. Intersegment sales and transfers are recorded at cost and are treated as a transfer of inventory. The Company does not evaluate performance or allocate resources based on segment asset data, and therefore total segment assets are not presented. The accounting policies of the segments are the same as those described in Note 2, *Summary of Significant Accounting Policies*, to the consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

<i>(dollars in thousands)</i>	For the fiscal year ended					
	January 1, 2022 (52 weeks)	% of Consolidated Net Sales	January 2, 2021 (53 weeks)	% of Consolidated Net Sales	December 28, 2019 (52 weeks)	% of Consolidated Net Sales
<b>Net sales:</b>						
U.S. Retail	\$ 1,899,262	54.5 %	\$ 1,671,644	55.3 %	\$ 1,884,150	53.5 %
U.S. Wholesale	1,126,415	32.3 %	996,088	32.9 %	1,205,646	34.3 %
International	460,763	13.2 %	356,602	11.8 %	429,490	12.2 %
Total consolidated net sales	\$ 3,486,440	100.0 %	\$ 3,024,334	100.0 %	\$ 3,519,286	100.0 %
<b>Operating income (loss):</b>						
		% of Segment Net Sales		% of Segment Net Sales		% of Segment Net Sales
U.S. Retail	\$ 368,221	19.4 %	\$ 146,806	8.8 %	\$ 225,874	12.0 %
U.S. Wholesale	195,369	17.3 %	141,456	14.2 %	212,558	17.6 %
International	63,806	13.8 %	(1,224)	(0.3)%	36,650	8.5 %
Corporate expenses <sup>(*)</sup>	(130,317)	n/a	(97,169)	n/a	(103,210)	n/a
Total operating income	\$ 497,079	14.3 %	\$ 189,869	6.3 %	\$ 371,872	10.6 %

(\*) 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.

The tables below present additional segment information for our reportable segments for the periods presented:

<i>(dollars in millions)</i>	January 1, 2022		
	U.S. Retail	U.S. Wholesale	International
<b>Charges:</b>			
Organizational restructuring <sup>(1)</sup>	\$ (0.6)	\$ 0.1	\$ 2.3
Incremental costs associated with COVID-19 pandemic	2.0	1.7	0.2
Gain on modification of retail store leases <sup>(2)</sup>	(2.6)	—	—
Total charges <sup>(3)</sup>	\$ (1.2)	\$ 1.8	\$ 2.5

(1) The fiscal year ended January 1, 2022 also includes corporate charges related to organizational restructuring of \$0.7 million.

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

(3) Total charges for the fiscal year ended January 1, 2022 exclude a customer bankruptcy recovery of \$38,000.

**CARTER'S, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(dollars in millions)

	January 2, 2021			December 28, 2019		
	U.S. Retail	U.S. Wholesale	International	U.S. Retail	U.S. Wholesale	International
<b>Charges:</b>						
Organizational restructuring <sup>(1)</sup>	\$ 5.0	\$ 2.0	\$ 2.2	\$ —	\$ —	\$ —
Goodwill impairment	—	—	17.7	—	—	—
<i>Skip Hop</i> tradename impairment charge	0.5	6.8	3.7	1.2	19.1	10.5
<i>OshKosh</i> tradename impairment charge	13.6	1.6	0.3	—	—	—
Incremental costs associated with COVID-19 pandemic	9.6	9.6	2.2	—	—	—
Retail store operating leases and other long-lived asset impairments, net of gain <sup>(2)</sup>	7.4	—	0.3	—	—	—
Benefit related to sale of inventory previously reserved in China	—	—	—	—	—	(2.1)
Reversal of store restructuring costs previously recorded during the third quarter of fiscal 2017	—	—	—	(0.7)	—	—
Customer bankruptcy recovery	—	—	—	—	(0.6)	—
<b>Total charges</b>	<b>\$ 36.1</b>	<b>\$ 20.0</b>	<b>\$ 26.4</b>	<b>\$ 0.5</b>	<b>\$ 18.5</b>	<b>\$ 8.4</b>

(1) The fiscal year ended January 2, 2021 and the fiscal year ended December 28, 2019 also includes corporate charges related to organizational restructuring of \$7.4 million and \$1.6 million, respectively.

(2) Impairments include an immaterial gain on the remeasurement of retail store operating leases.

**Additional Data by Segment**

**Inventory**

The table below represents inventory by segment:

	For the fiscal year ended	
	January 1, 2022	January 2, 2021
(dollars in thousands)		
U.S. Wholesale <sup>(*)</sup>	\$ 513,702	\$ 464,229
U.S. Retail	50,563	47,889
International	83,477	87,144
<b>Total</b>	<b>\$ 647,742</b>	<b>\$ 599,262</b>

(\*) U.S. Wholesale inventories also include inventory produced and warehoused for the U.S. Retail segment.

The table below represents consolidated net sales by product:

	For the fiscal year ended		
	January 1, 2022 (52 weeks)	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)
(dollars in thousands)			
Playclothes	\$ 1,261,622	\$ 1,052,178	\$ 1,362,847
Baby	1,124,961	1,026,910	1,228,905
Sleepwear	500,596	441,358	428,541
Other <sup>(*)</sup>	599,261	503,888	498,993
<b>Total net sales</b>	<b>\$ 3,486,440</b>	<b>\$ 3,024,334</b>	<b>\$ 3,519,286</b>

(\*) Other product offerings include bedding, outerwear, swimwear, shoes, socks, diaper bags, gift sets, toys, and hair accessories.

**Geographical Data**

**Revenue**

The Company's international sales principally represent sales to customers in Canada. Such sales were 65.0%, 70.3%, and 65.6% of total international net sales in fiscal 2021, 2020, and 2019, respectively.

*Long-Lived Assets*

The following represents Property, plant, and equipment, net, and Operating lease assets by geographic area:

<i>(dollars in thousands)</i>	<b>For the fiscal year ended</b>	
	<b>January 1, 2022</b>	<b>January 2, 2021</b>
United States	\$ 613,111	\$ 753,232
International	90,641	102,121
Total <sup>(*)</sup>	\$ 703,752	\$ 855,353

(\*) Fiscal year ended January 2, 2021 was revised to reflect the inclusion of operating lease assets.

Long-lived assets in the international segment primarily relate to Canada. Long-lived assets in Canada were 82.7% and 87.9% of total international long-lived assets at the end of fiscal 2021 and 2020, respectively.

**NOTE 15 – FAIR VALUE MEASUREMENTS**

**Investments**

The Company invests in marketable securities, principally equity-based mutual funds, to mitigate the risk associated with the investment return on employee deferrals of compensation. All of the marketable securities are included in Other assets on the accompanying consolidated balance sheets, and their aggregate fair values were approximately \$17.5 million and \$20.2 million at the end of fiscal 2021 and fiscal 2020, 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 \$2.3 million and \$2.0 million for fiscal 2021 and fiscal 2020, respectively. These amounts are included in Other expense (income), net on the Company's consolidated statement of operations.

The fair value of the Company's pension plan assets at January 1, 2022 and January 2, 2021, by asset category, are disclosed in Note 11, *Employee Benefits Plans*, to the consolidated financial statements.

**Borrowings**

As of January 1, 2022, the Company had no outstanding borrowings under its secured revolving credit facility.

The fair value of the Company's senior notes at January 1, 2022 was approximately \$1.04 billion. The fair value of these senior notes with a notional value and carrying value (gross of debt issuance costs) of \$1.00 billion was estimated using a quoted price as provided in the secondary market, which considers the Company's credit risk and market related conditions, and is therefore within Level 2 of the fair value hierarchy.

**Goodwill, Intangible, and Long-Lived Tangible Assets**

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

**NOTE 16 – OTHER CURRENT LIABILITIES**

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

*(dollars in thousands)*

	January 1, 2022	January 2, 2021
Accrued bonuses and incentive compensation	\$ 47,363	\$ 8,873
Accrued employee benefits	26,517	22,876
Unredeemed gift cards	21,619	18,300
Income taxes payable	13,850	21,164
Accrued taxes	12,883	10,900
Accrued interest	11,942	12,092
Accrued salaries and wages	10,821	10,650
Accrued other	31,454	30,385
Other current liabilities	<u>\$ 176,449</u>	<u>\$ 135,240</u>

**NOTE 17 – 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 effect 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.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of January 1, 2022.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, 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. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of January 1, 2022. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 *Internal Control-Integrated Framework*. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of January 1, 2022.

The effectiveness of Carter's, Inc. and its subsidiaries' internal control over financial reporting as of January 1, 2022 has been audited by PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K. PricewaterhouseCoopers LLP has issued an attestation report on Carter's, Inc.'s internal control over financial reporting containing the required disclosures, which appears herein.

**Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the fourth quarter of fiscal 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by Item 10 is incorporated herein by reference to the definitive proxy statement relating to the Annual Meeting of Stockholders of Carter's, Inc. scheduled to be held on May 18, 2022. We intend to file such definitive proxy statement with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

#### ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to the definitive proxy statement referenced above in Item 10.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

##### Equity Compensation Plan Information

The following table provides information about our equity compensation plan as of our most recent fiscal year end:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants, and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)</u>
Equity compensation plans approved by security holders <sup>(*)</sup>	658,666	\$ 89.32	3,027,361
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>658,666</b>	<b>\$ 89.32</b>	<b>3,027,361</b>

(\*) Represents stock options that are outstanding or that are available for future issuance pursuant to the Carter's, Inc. Amended and Restated Equity Incentive Plan.

Additional information called for by Item 12 is incorporated herein by reference to the definitive proxy statement referenced above in Item 10.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by Item 13 is incorporated herein by reference to the definitive proxy statement referenced above in Item 10.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by Item 14 is incorporated herein by reference to the definitive proxy statement referenced above in Item 10.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A)		Page
1.	<a href="#">Financial Statements filed as part of this report</a>	42
	<a href="#">Report of Independent Registered Public Accounting Firm</a>	43
	<a href="#">Consolidated Balance Sheets at January 1, 2022 and January 2, 2021</a>	45
	<a href="#">Consolidated Statements of Operations for the fiscal years ended January 1, 2022, January 2, 2021, and December 28, 2019</a>	46
	<a href="#">Consolidated Statements of Comprehensive Income for the fiscal years ended January 1, 2022, January 2, 2021, and December 28, 2019</a>	47
	<a href="#">Consolidated Statements of Cash Flows for the fiscal years ended January 1, 2022, January 2, 2021, and December 28, 2019</a>	48
	<a href="#">Consolidated Statements of Changes in Stockholders' Equity for the fiscal years ended January 1, 2022, January 2, 2021, and December 28, 2019</a>	49
	<a href="#">Notes to Consolidated Financial Statements</a>	50
2.	Financial Statement Schedules: None	
(B)	Exhibits:	
<b>Exhibit Number</b>	<b>Description of Exhibits</b>	
3.1	<a href="#">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).</a>	
3.2	<a href="#">Amended and Restated By-laws of Carter's, Inc., as amended on May 22, 2017 (incorporated by reference to Exhibit 3.2 of Carter's, Inc.'s Current Report on Form 8-K filed on May 23, 2017).</a>	
4.1	<a href="#">Specimen Certificate of Common Stock (incorporated by reference to Exhibit 4.1 of Carter's, Inc.'s Registration Statement on Form S-1A (No. 333-98679) filed on October 10, 2003).</a>	
4.2	<a href="#">Indenture, dated March 14, 2019, by and among The William Carter Company, certain guarantors from time to time party thereto and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of Carter's, Inc.'s Current Report on Form 8-K filed on March 14, 2019).</a>	
4.2.1	<a href="#">Form of 5.625% Senior Notes due 2027 (included in Exhibit 4.2).</a>	
4.3	<a href="#">Indenture, dated May 11, 2020, by and among The William Carter Company, certain guarantors from time to time party thereto and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of Carter's, Inc.'s Current Report on Form 8-K filed on May 11, 2020).</a>	
4.3.1	<a href="#">Form of 5.500% Senior Notes due 2025 (included in Exhibit 4.3).</a>	
4.4	<a href="#">Description of Securities (incorporated by reference to Exhibit 4.3 of Carter's, Inc.'s Annual Report on Form 10-K filed on February 24, 2020).</a>	
10.1	<a href="#">Fourth Amended and Restated Credit Agreement, dated as of August 25, 2017, by and among The William Carter Company, as U.S. Borrower, The Genuine Canadian Corp., as Canadian Borrower, Carter's Holdings B.V., as Dutch Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, U.S. Dollar Facility Swing Line Lender, U.S. Dollar Facility L/C Issuer and Collateral Agent, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Agent, a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, J.P. Morgan Europe Limited, as European Agent, JPMorgan Chase Bank, N.A., London Branch, as a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, Bank of America, N.A. and Bank of Montreal, as Co-Syndication Agents, JPMorgan Chase Bank, N.A., Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated and BMO Capital Markets Corp., as Joint Lead Arrangers and Bookrunners, Branch Banking &amp; Trust Company, HSBC Securities (USA) Inc., Royal Bank of Canada, SunTrust Bank, U.S. Bank National Association and Wells Fargo Bank, National Association, as Co-Documentation Agents and certain other lenders party thereto (incorporated by reference to Exhibit 10.1 of Carter's, Inc.'s Current Report on Form 8-K filed on August 31, 2017).</a>	



- 10.1.1 [Amendment No. 1, dated as of September 21, 2018, to the Fourth Amended and Restated Credit Agreement dated as of August 25, 2017, by and among The William Carter Company, as U.S. Borrower, The Genuine Canadian Corp., as Canadian Borrower, Carter's Holdings B.V., as Dutch Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, Collateral Agent, U.S. Dollar Facility Swing Line Lender and U.S. Dollar Facility L/C Issuer, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Agent, a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, J.P. Morgan Europe Limited, as European Agent, JPMorgan Chase Bank, N.A., London Branch, as a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, each lender from time to time party thereto and the other parties party thereto \(incorporated by reference to Exhibit 10.1 of Carter's, Inc.'s Current Report on Form 8-K filed on September 26, 2018\).](#)
- 10.1.2 [Amendment No. 2, dated as of May 4, 2020, to the Fourth Amended and Restated Credit Agreement dated as of August 25, 2017, by and among The William Carter Company, as U.S. Borrower, The Genuine Canadian Corp., as Canadian Borrower, Carter's Holdings B.V., as Dutch Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, Collateral Agent, U.S. Dollar Facility Swing Line Lender and U.S. Dollar Facility L/C Issuer, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Agent, a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, J.P. Morgan Europe Limited, as European Agent, JPMorgan Chase Bank, N.A., London Branch, as a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, each lender from time to time party thereto and the other parties party thereto \(incorporated by reference to Exhibit 10.1 of Carter's, Inc.'s Quarterly Report on Form 10-Q filed on July 24, 2020\).](#)
- 10.1.3 [Amendment No. 3, dated as of April 21, 2021, to the Fourth Amended and Restated Credit Agreement dated as of August 25, 2017, by and among The William Carter Company, as U.S. Borrower, The Genuine Canadian Corp., as Canadian Borrower, Carter's Holdings B.V., as Dutch Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, Collateral Agent, U.S. Dollar Facility Swing Line Lender and U.S. Dollar Facility L/C Issuer, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Agent, a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, JPMorgan Chase Bank, N.A., as European Agent, JPMorgan Chase Bank, N.A., London Branch, as a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, each lender from time to time party thereto and the other parties party thereto \(incorporated by reference to Exhibit 10.1 of Carter's, Inc.'s Current Report on Form 8-K filed on April 26, 2021\).](#)
- 10.2 \* [Form of Severance Agreement entered into from time to time between The William Carter Company and executive officers \(incorporated by reference to Exhibit 10.2 of Carter's, Inc.'s Quarterly Report on Form 10-Q filed on October 29, 2015\).](#)
- 10.3 \* [Amended and Restated Equity Incentive Plan \(incorporated by reference to Appendix B of Carter's, Inc.'s Schedule 14A filed on April 4, 2018\).](#)
- 10.4 \* [Amended and Restated Annual Incentive Compensation Plan \(incorporated by reference to Appendix C of Carter's, Inc.'s Schedule 14A filed on March 31, 2016\).](#)
- 10.5 \* [The William Carter Company Severance Plan, amended and restated effective January 1, 2020 \(incorporated by reference to Exhibit 10.5 of Carter's, Inc.'s Annual Report on Form 10-K filed on February 24, 2020\).](#)
- 10.6 \* [The William Carter Company Deferred Compensation Plan, dated as of November 10, 2010 \(incorporated by reference to Exhibit 10.20 of Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011\).](#)
- 10.7 [Lease Agreement dated March 29, 2012, between The William Carter Company and Duke Secured Financing 2009-1 ALZ, LLC \(incorporated by reference to Exhibit 10.21 of Carter's, Inc.'s Quarterly Report on Form 10-Q filed on April 27, 2012\).](#)
- 10.8 [Lease Agreement dated December 14, 2012, between The William Carter Company and Phipps Tower Associates, LLC \(incorporated by reference to Exhibit 10.1 of Carter's, Inc.'s Current Report on Form 8-K filed on December 14, 2012\).](#)
- 10.8.1 [Second Amendment to the Lease Agreement dated June 17, 2013, between The William Carter Company and Phipps Tower Associates, LLC \(incorporated by reference to Exhibit 10.19 of Carter's, Inc.'s Quarterly Report on Form 10-Q filed on October 24, 2013\).](#)
- 21 [Subsidiaries of Carter's, Inc.](#)
- 23 [Consent of Independent Registered Public Accounting Firm.](#)
- 31.1 [Rule 13a-15\(e\)/15d-15\(e\) and 13a-15\(f\)/15d-15\(f\) Certification.](#)

31.2	<a href="#">Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.</a>
32	<a href="#">Section 1350 Certification.</a>
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-K formatted as Inline XBRL

\* Indicates a management contract or compensatory plan.

**ITEM 16. FORM 10-K SUMMARY**

Omitted at registrant's option.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

CARTER'S, INC.

/s/ MICHAEL D. CASEY

Michael D. Casey  
Chief Executive Officer

Date: February 25, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MICHAEL D. CASEY</u> Michael D. Casey	Chairman and Chief Executive Officer (Principal Executive Officer)	February 25, 2022
<u>/s/ RICHARD F. WESTENBERGER</u> Richard F. Westenberger	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2022
<u>/s/ HALI BORENSTEIN</u> Hali Borenstein	Director	February 25, 2022
<u>/s/ LUIS BORGEN</u> Luis Borgen	Director	February 25, 2022
<u>/s/ GIUSEPPINA BUONFANTINO</u> Giuseppina Buonfantino	Director	February 25, 2022
<u>/s/ A. BRUCE CLEVERLY</u> A. Bruce Cleverly	Director	February 25, 2022

/s/ JEVIN S. EAGLE Director  
Jevin S. Eagle

February 25, 2022

/s/ MARK P. HIPPI Director  
Mark P. Hipp

February 25, 2022

/s/ WILLIAM J. MONTGORIS Director  
William J. Montgoris

February 25, 2022

/s/ DAVID PULVER Director  
David Pulver

February 25, 2022

/s/ GRETCHEN W. SCHAR Director  
Gretchen W. Schar

February 25, 2022

**Subsidiaries of Carter's, Inc.**

The William Carter Company is incorporated in Massachusetts

OshKosh B'Gosh, Inc. is incorporated in Delaware

Carter's Retail, Inc. is incorporated in Delaware

TWCC Product Development and Sales, Inc. is incorporated in Delaware

Carter's Giftcard Company, Inc. is incorporated in Florida

Skip Hop Holdings, Inc. is incorporated in Delaware

Skip Hop, Inc. is incorporated in New York

Carter's Holdings B.V. is formed in the Netherlands

The Genuine Canadian Corp. is incorporated in Ontario, Canada

Carter's Global Sourcing Limited is formed in Hong Kong

Carter's Shanghai Business Information Consulting Co., Ltd is formed in China

Skip Hop (Shenzhen) Trading Company Limited is formed in China

Carter's Vietnam Company limited is formed in Vietnam

Skip Hop UK Limited is formed in England

Carter's Mexico LLC is incorporated in Delaware

Carters Brands, S.A. de C.V. is formed in Mexico

Exhibit 23

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-177724, 333-168446, 333-125306, and 333-225144) of Carter's, Inc. of our report dated February 25, 2022 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Atlanta, Georgia  
February 25, 2022

**CERTIFICATION**

I, Michael D. Casey, certify that:

1. I have reviewed this annual report on Form 10-K 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.

February 25, 2022

/s/ MICHAEL D. CASEY

Michael D. Casey  
Chief Executive Officer

**CERTIFICATION**

I, Richard F. Westenberger, certify that:

1. I have reviewed this annual report on Form 10-K 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.

February 25, 2022

/s/ RICHARD F. WESTENBERGER

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Richard F. Westenberger  
*Chief Financial Officer*



**CERTIFICATION**

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

February 25, 2022

/s/ MICHAEL D. CASEY

Michael D. Casey  
*Chief Executive Officer*

February 25, 2022

/s/ RICHARD F. WESTENBERGER

Richard F. Westenberger  
*Chief Financial Officer*

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