count on carter's

Carter's, Inc. 2015 Annual Report

Carter's, Inc. 2015 Annual Report


count on
carter's

Dear Fellow Shareholders,

Our Company made good progress in 2015 strengthening its position as the global leader in young children's apparel. In our 150th year of operations, we achieved a record level of sales and profitability, improved our market share in all channels of distribution, launched our *Carter's* brand in China, and delivered good returns to our shareholders.

2015 Highlights

- Increased net sales by 4% to $3.0 billion, our 27th consecutive year of sales growth
- Improved our #1 market share position in the United States to 16.9%
- Achieved record earnings of $238 million
- Grew diluted earnings per share by 24%
- Returned $156 million to shareholders through share repurchases and dividends

Our Vision and Focus

Our vision is to be the world's favorite brands in young children's apparel. Today, we are the largest branded marketer of young children's apparel in the United States and Canada. Our brands are also sold in over 100 countries through our multi-channel distribution capabilities. We believe no other company in the world has our brand reach or success in young children's apparel.

Over the past 10 years, our annual sales and net income have grown, on average, by 10% and 18%, respectively, on a compounded basis. We plan to build on this record of success by focusing on the following priorities for our business:

- **Provide the best value and experience in young children's apparel**

  We own two of the best known brands in young children's apparel – *Carter's* and *OshKosh B'gosh*. These iconic and complementary brands have well-earned reputations for quality and value with generations of consumers.

  In 2015, we continued to gain market share, strengthening our position as the leader in young children's apparel in the United States and Canada. Our 16.9% share of the $21 billion U.S. market and 16.0% share of the $2 billion market in Canada are double that of our nearest competitors.

  We believe we have strengthened our market position by focusing on the things that matter most to consumers. More so than previous generations, millennial moms say that good value is the most important characteristic when shopping for brands. Last year, *Carter's* was ranked among the top 100 brands preferred by millennials. *Carter's* was also the #1 children's apparel brand chosen by new moms with the highest ratings in fit, comfort, and value.

  In 2015, we strengthened our value proposition by launching a new customer loyalty program called *Rewarding Moments*, a beautifully branded, cross-channel, cross-brand rewards program. Over five million consumers enrolled in this program in its first four months, exceeding our expectations. We believe this initiative will help drive more frequent visits to our brands and improved customer retention over time.

  In 2015, we refreshed our *Carter's* branding across all channels of distribution to better communicate the value and beauty of our product offerings. We saw particularly good results from an initiative with Kohl's, one of the leading retailers of young children's apparel, who meaningfully improved the scope, presentation and marketing of our *Carter's* playwear products.

  Our *Carter's* and *OshKosh B'gosh* stores and websites showcase the full scope, beauty and value of our product offerings. In the United States and Canada, we continue to see the benefits of bringing our two iconic, complementary brands together in our stores and online. Our co-branded stores provide consumers with the best selection of our *Carter's* and *OshKosh* brands in one convenient location, and serve the needs of children from newborn to 10 years of age.

- **Extend the reach of our brands**

  Our multi-brand, multi-channel business model provides us with the broadest distribution of young children's apparel in the United States and Canada. Our growth over the past decade reflects our ability to build on the solid foundation of our wholesale and outlet store businesses by adding new growth vehicles, including brand stores located closer to the consumer, and eCommerce and international marketing capabilities.

  With over 17,000 points of distribution, we are the largest supplier of young children's apparel to the largest retailers in the United States. We believe we can continue to grow our wholesale business by strengthening the performance of our core baby product offerings, expanding our playwear and sleepwear assortments, and supporting our wholesale customers' eCommerce growth initiatives.

In addition to our strong presence with all of the major national retailers, we operate over 800 *Carter's* and *OshKosh* stores and a successful eCommerce operation in the United States. We have achieved good growth over the past decade by extending our outlet store model, and opening brand stores in convenient, off-mall shopping centers. Today, these brand stores comprise nearly 60% of our U.S. store base, and we expect this mix to increase over time. We're seeing the best consumer traffic and performance with our new side-by-side store model, particularly with our *OshKosh* brand. We believe we have the opportunity to open 250 or more stores over the next five years, with most openings expected to be in our side-by-side store format. U.S. eCommerce, our fastest growing and highest margin business, is also expected to be a good contributor to our growth over the next five years given the secular shift to online shopping.

Internationally, we reach consumers in approximately 60 countries through our retail, wholesale and licensing relationships, and in over 100 countries through our eCommerce websites. In Canada, the largest component of our international business, we operate a multi-channel model which enabled strong net sales growth of 16% in constant currency in 2015. We believe Canada will be a significant contributor to our international growth over the next five years.

The next largest component of our international business reflects sales to our international partners. This business consists of approximately 25 retailers that operate in over 750 retail locations across nearly 60 countries outside of the United States and Canada. In 2015, we expanded our international presence by launching our brands with retailers in Brazil, India, Chile, and Europe. Near-term contributions from these initiatives are expected to be modest, but may become more meaningful over time.

China, a $12 billion market, is the next largest international opportunity for our Company. Children's apparel is the fastest growing segment of the apparel market in China with over 40,000 children born every day. In 2015, we launched eCommerce capabilities in China and are encouraged by the early results. We are exploring additional opportunities beyond eCommerce, and believe this market has the potential to provide over $100 million in sales by 2020.

- **Improve profitability**

We made good progress in 2015 improving our profitability, driven by a higher mix of eCommerce sales, greater supply chain efficiencies, lower product costs, and continued progress with our *OshKosh* brand. Our operating margin is among the highest in our peer group, and we believe we can continue to improve our profitability by:

- increasing the mix of U.S. direct-to-consumer and international sales;
- growing our direct sourcing capabilities;
- leveraging our distribution expenses;
- strengthening inventory management; and
- improving *OshKosh* profitability.

Given the strength of our multi-brand, multi-channel business model, we believe our Company can grow to over $4 billion in net sales by 2020, and improve its operating margin to its previous peak of 14% by 2018.

We are very fortunate to own two of the best-known and best-performing brands in young children's apparel. We have a very talented organization that is passionate about strengthening our brands, and has demonstrated its ability to deliver exceptional value to consumers in a highly competitive marketplace. We are encouraged by the meaningful opportunities we have to continue to grow sales and improve profitability in 2016, and for many years to come.

Jack Welch

In 2015, Jack Welch, an exceptionally good man, retired after serving on our Board of Directors for 12 years. Jack provided leadership and guidance as we transitioned from a domestic manufacturer to a global marketer and distributor of the best known brands in young children's apparel. We are grateful for his leadership and friendship, and wish him all the best in his retirement.

On behalf of our Board of Directors, Leadership Team, and all of our dedicated employees, thank you for your investment in Carter's.

Sincerely,

Michael D. Casey
Chairman and Chief Executive Officer

March 30, 2016

carter's

just one you made by carter's

Precious firsts made by carter's

child of mine made by carter's

EST. 1895 OSHKOSH B'gosh

GENUINE KIDS FROM OSHKOSH

Our Business

Carter's, Inc. owns the largest share of the $21 billion baby and young children's apparel market (ages zero to seven) in the United States as well as the $2 billion market in Canada. We own two of the best known and trusted brand names in young children's apparel, *Carter's* and *OshKosh B'gosh*. Both of these iconic brands have more than 100 years of rich history; Carter's was established in 1865 and OshKosh B'Gosh in 1895. Our *Genuine Kids*, *Just One You*, and *Precious Firsts* brands are sold at Target, and our *Child of Mine* brand is sold at Walmart.

We have the broadest distribution of young children's apparel in the market. In 2015, our multi-channel business model generated $3.0 billion in net sales. In the United States, we reach a wide range of consumers through more than 17,000 wholesale locations, including the largest retailers in the country, 835 Company-operated stores, and our websites. Internationally, we reach consumers in approximately 60 countries through wholesale and licensing relationships, in over 100 countries through our websites, and through 147 Company-operated stores in Canada. We serve the needs of families with young children by providing a strong value in our product offerings, including baby apparel, sleepwear, playclothes, and related accessories.

Financial Highlights

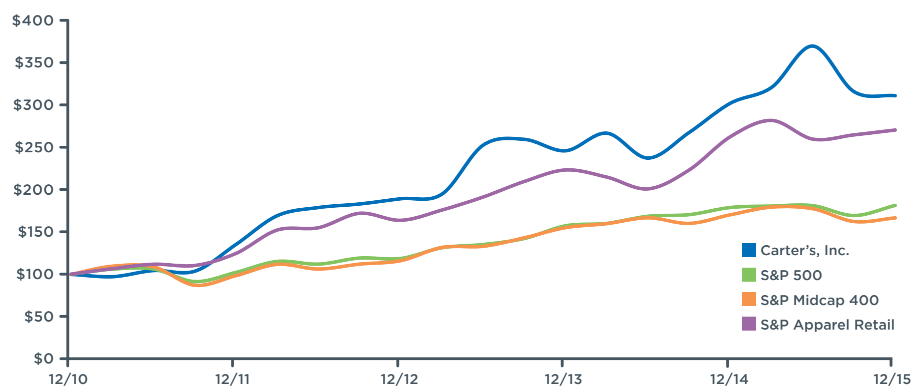
(dollars in thousands, except per share data)

Summary of Operations	Fiscal 2015	Fiscal 2014	Fiscal 2013
As reported (a)			
Net sales	$3,013,879	$2,893,868	$2,638,711
Gross margin	41.7%	40.9%	41.5%
Operating income	$392,857	$333,345	$264,151
Operating margin	13.0%	11.5%	10.0%
Net income	$237,822	$194,670	$160,407
Diluted earnings per share	$4.50	$3.62	$2.75
Net cash provided by operating activities	$307,987	$282,397	$209,696
As adjusted (b)			
Operating income	$400,985	$359,257	$319,832
Operating margin	13.3%	12.4%	12.1%
Net income	$243,641	$211,493	$196,532
Diluted earnings per share	$4.61	$3.93	$3.37

(a) Results "as reported" are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").
(b) Results "as adjusted" are non-GAAP financial measurements. A reconciliation of results "as reported" to results "as adjusted" immediately follows our Annual Report on Form 10-K.

Comparison of Five Year Cumulative Total Return*

Among Carter's, Inc., the S&P 500 Index, the S&P Midcap 400 Index, and the S&P Apparel Retail Index



*$100 invested on 12/31/10 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

carter's, inc.

Form 10-K

2015 Annual Report

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 2, 2016**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO __________**

Commission file number:
001-31829

CARTER'S, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**13-3912933**
(state or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Phipps Tower
3438 Peachtree Road NE, Suite 1800
Atlanta, Georgia 30326
(Address of principal executive offices, including zip code)

(678) 791-1000
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each Exchange on which Registered
Carter's, Inc.'s common stock par value $0.01 per share	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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

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

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of July 4, 2015 (the last business day of our most recently completed second quarter) was $5,563,932,389.

There were 51,746,604 shares of Carter's, Inc. common stock with a par value of $0.01 per share outstanding as of the close of business on February 19, 2016.

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., to be held on May 11, 2016, 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 2, 2016.

CARTER'S, INC.
INDEX TO ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED JANUARY 2, 2016

PART I

Our market share data is based on information provided by The NPD Group, Inc. ("NPD"). Unless otherwise indicated, references to market share in this Annual Report on Form 10-K are expressed as a percentage of total children's retail sales for a segment of the market. As the Company defines it, the baby and young children's apparel market includes apparel and related products for ages zero to seven.

The NPD market share data presented is based on NPD's definition of the baby and playclothes categories, which are different from the Company's definitions of these categories. The data presented is based upon The NPD Group/Consumer Tracking Service for Children's Apparel in the United States ("U.S.") and represents the twelve month period ending December 31, 2015.

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 fiscal year ends on the Saturday, in December or January nearest the last day of December, resulting in an additional week of results every five or six years. Fiscal 2015, which ended on January 2, 2016, contained 52 weeks. Fiscal 2014, which ended on January 3, 2015, contained 53 weeks. Fiscal 2013, which ended on December 28, 2013, contained 52 weeks.

This Annual Report on Form 10-K contains certain forward-looking statements regarding future circumstances. 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 current expectations and assumptions of the Company 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.

ITEM 1. BUSINESS

GENERAL

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

We believe each of our brands is uniquely positioned in the marketplace. In the $20.5 billion baby and young children's apparel market ages zero to seven in the U.S., our *Carter's* brand has the #1 position with a 14.6% market share and our *OshKosh* brand has a 2.3% market share. We offer multiple product categories, including baby, sleepwear, playclothes, and related accessories. Our multi-channel business model enables us to reach a broad range of consumers across various socio-economic groups and geographic regions.

We distribute our products through multiple channels in the U.S. children's apparel market, which, as of January 2, 2016, included approximately 17,400 wholesale locations (including department stores, national chain stores, specialty stores and discount retailers), 982 Company-operated stores, and our websites. As of January 2, 2016, we operated 594 Carter's and 241 OshKosh stores in the U.S., and our products are sold through 147 Company-operated stores in Canada in addition to our international wholesale, licensing, and online channels.

The Company is a Delaware corporation. The Company and its predecessors have been doing business since 1865. The Company's principal executive offices are located in the U.S. at Phipps Tower, 3438 Peachtree Road NE, Suite 1800, Atlanta, Georgia 30326, and our telephone number is (678) 791-1000.

OUR BRANDS, PRODUCTS, AND DISTRIBUTION CHANNELS

CARTER'S BRANDS – United States

Under our *Carter's* brand, we design, source, and market a broad array of products, primarily for sizes newborn to eight. Our *Carter's* brand is sold in department stores, national chains, specialty stores, off-price sales channels, through our Carter's retail stores, and online at www.carters.com. Additionally, we sell our *Child of Mine* brand at Walmart and our *Just One You* and *Precious Firsts* brands at Target. In fiscal 2015, we sold over 342 million units of *Carter's*, *Child of Mine*, *Just One You*, and *Precious Firsts* products in the U.S., an increase of approximately 4.4% from fiscal 2014. Our strategy is to drive sales growth through our focus on essential, high-volume, core apparel products for babies and young children. Such products include bodysuits, pajamas, blanket sleepers, gowns, bibs, receiving blankets, and playwear. We believe that our core baby and sleepwear products are essential consumer staples and less dependent on changes in fashion trends.

We have cross-functional product teams focused on the development of our *Carter's* baby, sleepwear, and playclothes products. These teams are skilled in identifying and developing high-volume, core products. Each team includes members from merchandising, design, sourcing, product development, forecasting, and supply chain logistics. These teams follow a disciplined approach to fabric usage, color rationalization, and productivity and are supported by a dedicated art department and state-of-the-art design systems. We also license our brand names to other companies to create a broad collection of lifestyle products, including bedding, hosiery, shoes, room décor, furniture, and toys. The licensing team directs the use of our designs, art, and selling strategies to all licensees.

We believe this disciplined approach to core product design results in compelling product offerings to consumers, reduces our exposure to short-term fashion trends, and supports efficient operations. We conduct consumer research as part of our product development process and engage in product testing in our own stores.

CARTER'S BRAND POSITIONING — United States

Our strategy is to drive our brand image as the leader in baby and young children's apparel and to consistently provide high-quality products at a great value to consumers. We employ a disciplined merchandising strategy that identifies and focuses on core products. We believe that we have strengthened our brand image with the consumer by differentiating our core products through fabric improvements, new artistic applications, and new packaging and presentation strategies. We also attempt to differentiate our products through store-in-store fixturing, branding and signage packages, and advertising. We have invested in display fixtures for our major wholesale customers that more clearly present our core products on their floors to enhance brand and product presentation. We also strive to provide our wholesale customers with a consistent, high-level of service, including delivering and replenishing products on time to fulfill customer needs. Our retail stores and websites focus on the customer experience through store and website design, visual enhancements, clear product presentation, and experienced customer service.

CARTER'S PRODUCTS — United States

Baby

Carter's brand baby products include bodysuits, pants, dresses, three-piece sets, receiving blankets, layette gowns, bibs, caps, and booties both as single units and multi-piece sets. In fiscal 2015, we generated approximately $1.05 billion in net sales of these products in the U.S., representing 34.9% of our consolidated net sales.

Our *Carter's* brand is the leading brand in the baby category in the U.S. In fiscal 2015, in department stores, national chains, outlet, specialty stores, and off-price sales channels, our aggregate *Carter's* brand market share in the U.S. was approximately 25.2% for baby ages zero to two, which represents more than five times the market share of the next largest brand. We sell a complete range of baby products for newborns, primarily made of cotton. We attribute our leading market position to our brand strength, distinctive print designs, artistic applications, reputation for quality, and ability to manage our dedicated floor space for our wholesale customers. We tier our products through marketing programs targeted toward experienced mothers, first-time mothers, and gift-givers. Our *Carter's Little Layette* product line, the largest component of our baby business, provides parents with essential core products and accessories, including value-focused multi-piece sets. Our *Little Collections* product line consists of coordinated baby programs designed for first-time mothers and gift-givers.

Playclothes

Carter's brand playclothes products include knit and woven cotton apparel for everyday use in sizes newborn to eight. In fiscal 2015, we generated $705.7 million in net sales of these products in the U.S., representing 23.4% of our consolidated net sales. We continue to focus on building our *Carter's* brand in the playclothes market by developing a base of essential, high-volume products that utilize original print designs and innovative artistic applications. Our aggregate fiscal 2015 *Carter's* brand playclothes market share in the U.S. was approximately 13.1% in the $13.8 billion department store, national chain, outlet, specialty store, and off-price sales channels, which represents two times the market share of the next largest brand.

Sleepwear

Carter's brand sleepwear products include pajamas and blanket sleepers primarily in sizes 12 months to eight. In fiscal 2015, we generated $331.7 million in net sales of these products in the U.S., representing 11.0% of our consolidated net sales. Our *Carter's* brand is the leading brand of sleepwear for babies and young children within the department store, national chain, outlet, specialty store, and off-price sales channels in the U.S. In fiscal 2015, in these channels, our *Carter's* brand market share was approximately 30.6%, which represents more than five times the market share of the next largest brand. As with our baby product line, we differentiate our sleepwear products by offering high-volume, high-quality core products with distinctive print designs and artistic applications.

Other Products

Our other product offerings include bedding, outerwear, swimwear, shoes, socks, diaper bags, gift sets, toys, and hair accessories. In fiscal 2015, we generated $169.2 million in net sales of these other products in our Carter's retail stores and online, representing 5.6% of our consolidated net sales.

Royalty Income

We expand the distribution of our *Carter's, Child of Mine, Just One You,* and *Precious Firsts* product offerings by licensing these brands to 12 licensees in the U.S. as of January 2, 2016. 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 and consumers 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, core products at attractive values to the consumer. In addition, we work closely with our wholesale customers and our licensees to gain dedicated floor space for licensed product categories. In fiscal 2015, our *Carter's* brand generated $26.0 million in domestic royalty income.

OSHKOSH BRANDS — United States

Under our *OshKosh* brand, we design, source, and market a broad array of young children's apparel, primarily for children in sizes newborn to 12. Our *OshKosh* brand is currently sold in our OshKosh retail stores, department stores, national chains, specialty stores, through off-price sales channels, and online at www.oshkoshbgosh.com and www.oshkosh.com. In fiscal 2015, we sold 49.2 million units of *OshKosh* products in the U.S. through our retail stores, to our wholesale customers, and online, an increase of approximately 4.8% from fiscal 2014. We also have a licensing agreement with Target Corporation ("Target") through which Target sells products under our *Genuine Kids from OshKosh* brand.

OSHKOSH BRAND POSITIONING — United States

We believe our *OshKosh* brand provides for high-quality playclothes in sizes newborn to 12. Our core *OshKosh* brand products include denim, overalls, t-shirts, fleece, and other playclothes. Our *OshKosh* brand is generally positioned towards an older segment (young children, sizes 2 to 7) and at slightly higher average prices than our *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.

OSHKOSH PRODUCTS —United States

Playclothes

Our *OshKosh* brand is best known for its playclothes products. *OshKosh* brand playclothes products include denim apparel products with multiple wash treatments and coordinating garments, overalls, woven bottoms, knit tops, bodysuits, and playclothes products for everyday use in sizes newborn to 12. In fiscal 2015, we generated $342.4 million in net sales of *OshKosh* brand playclothes products in the U.S., representing 11.4% of our consolidated net sales. Our aggregate fiscal 2015 *OshKosh* brand playclothes market share in the U.S. was approximately 2.6% of the $13.8 billion young children's playclothes market.

We believe our *OshKosh* brand represents a significant opportunity for us to increase our market share in the playclothes category as the young children's playclothes market in the U.S. is highly fragmented. For fiscal 2015, this market was nearly four times the size of the baby and sleepwear markets combined. We plan to grow this business by strengthening our product offerings, improving product value, reducing product complexity, and leveraging our strong customer relationships and global supply chain expertise.

Other Products

The remainder of our *OshKosh* brand product offerings include baby, sleepwear, outerwear, shoes, hosiery, and accessories. In fiscal 2015, we generated $86.3 million in net sales of these other products in our OshKosh retail stores and online, which represented 2.9% of our consolidated net sales.

Royalty Income

We partner with a number of domestic licensees to extend the reach of our *OshKosh* brand. We currently have eight domestic licensees selling apparel and accessories. Our largest licensing agreement is with Target. All *Genuine Kids from OshKosh* products sold by Target are sold pursuant to this licensing agreement. Our licensed products provide our customers and consumers with a range of *OshKosh* products including outerwear, underwear, swimwear, socks, shoes, and accessories. In fiscal 2015, we earned approximately $13.2 million in domestic royalty income from our *OshKosh* brands.

INTERNATIONAL

Our international segment includes Company-operated retail stores, wholesale, and online operations in addition to royalty income from our international licensees. In fiscal 2015, our international sales were $326.2 million, representing 10.8% of our consolidated net sales. As of January 2, 2016, we operated 147 co-branded Carter's and OshKosh retail stores in Canada. Additionally, we reach consumers in approximately 60 countries through wholesale and licensing relationships and in over 100 countries through our websites.

As of January 2, 2016, we partnered with 33 licensees to sell the *Carter's* and *OshKosh* brands internationally. In fiscal 2015, our *OshKosh* international licensees generated retail sales of $43.1 million, on which we earned approximately $3.0 million in royalty income. In fiscal 2015, our international licensees generated *Carter's* brand retail sales of $31.6 million, on which we earned $1.8 million in royalty income.

SEGMENTS

Financial and geographical information for our five reportable segments, Carter's Retail, Carter's Wholesale, OshKosh Retail, OshKosh Wholesale, and International, is contained in Item 8—"Financial Statements and Supplementary Data," under Note 13—"Segment Information" to the accompanying audited consolidated financial statements.

Form 10-K

SALES, MARKETING AND DISTRIBUTION

As described above, we sell our products through the wholesale channel, through our retail stores in the U.S. and Canada, and online.

Our *Carter's* brand wholesale customers include major retailers, such as, in alphabetical order, Costco, JCPenney, Kohl's, Macy's, Sam's Club, Target, Toys "R" Us, and Walmart. We collaboratively plan store assortments with our wholesale customers. We intend to drive continued growth with our wholesale customers through our focus on managing our key accounts' business through replenishment, product mix, brand presentation, marketing, and frequent meetings with the senior management of our major wholesale customers.

Our *OshKosh* brand wholesale customers include major retailers, such as, in alphabetical order, Baby's "R" Us, Belk, Bon-Ton, Costco, Fred Meyer, JCPenney, Kohl's, Sears, Stage Stores, and Toys "R" Us. We continue to work with our customers to establish seasonal plans. The majority of our *OshKosh* brand playclothes products will be planned and ordered seasonally.

As of January 2, 2016, we operated 594 Carter's retail stores in the U.S. These stores carry a complete assortment of baby and young children's apparel, accessories, and gift items. Our stores average approximately 4,400 square feet per location and are distinguished by an easy, consumer-friendly shopping environment. Our brand stores are generally located in high-traffic strip shopping centers in or near major cities. We believe our brand strength and our assortment of core products have made our stores a destination location within many outlet and strip centers. Our outlet stores are generally located within 20 to 30 minutes of densely-populated areas.

As of January 2, 2016, we operated 241 OshKosh retail stores in the U.S. These stores carry a wide assortment of young children's apparel, accessories, and gift items, and average approximately 4,000 square feet per location.

We operate "side-by-side" locations wherein adjacent retail stores for our *Carter's* and *OshKosh* brands are connected, allowing customers to shop for both brands in a single location. Each "side-by-side" location is counted as one Carter's retail store and one OshKosh retail store. As of January 2, 2016, the U.S. store count data presented in the two preceding paragraphs for Carter's and OshKosh included 97 "side-by-side" locations.

As of January 2, 2016, we operated 147 co-branded retail stores in Canada. These stores average approximately 5,100 square feet per location, slightly larger than our U.S. based stores, and offer a similar product assortment, localized for climate differences.

Store Expansion

We use a real estate selection process whereby we assess all new locations based on demographic factors, retail adjacencies, and population density.

Marketing

Our marketing is focused on connecting with millennials. As such, we continue to strengthen and evolve our digital programs to put our brands in front of the consumer in new and innovative ways. These digital programs, along with our core direct marketing, are all focused on driving a deeper relationship with the consumer across all touch points. Our goal is for *Carter's* and *OshKosh* to be the preferred apparel brands in the young children's market, driving loyalty through increased purchase frequency.

In addition, during fiscal 2015, we implemented our *Rewarding Moments*® rewards program to drive customer traffic, sales, and brand loyalty.

Distribution

Domestically, we operate two distribution centers in Georgia, including our 1,062,000 square feet state-of-the-art distribution center in Braselton, Georgia. We also utilize a distribution center on the west coast. These three U.S. distribution centers supply products to our domestic wholesale customers and to our direct-to-consumer ("DTC") retail operations in the U.S.

Internationally, we operate and utilize distribution centers in Canada and Asia to support our international wholesale customers and Canadian DTC retail operations.

GLOBAL SOURCING NETWORK

We source products from an international network of suppliers, primarily from Asia. One sourcing agent currently manages approximately 60% of our inventory purchases. Our sourcing network consists of over 150 vendors located in 16 countries.

We believe that our sourcing arrangements are sufficient to meet our current operating requirements and provide capacity for growth.

We also have direct sourcing operations in Hong Kong and we intend to increase our direct sourcing mix over time in an effort to improve the competitiveness and performance of our supply chain.

COMPETITION

The baby and young children's apparel market is highly competitive. Competition is generally based upon product quality, brand name recognition, price, selection, service, and convenience. Both branded and private label manufacturers compete in the baby and young children's apparel market. Our primary competitors in the wholesale channel include private label product offerings, and, in alphabetical order, Disney and Gerber. Our primary competitors in the retail channel include, in alphabetical order, Disney, Gap, Gymboree, Old Navy, and The Children's Place. Most retailers, including our wholesale customers, have significant private label product offerings that compete with our products. 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 *Carter's*, *OshKosh*, and related brand names, combined with our breadth of product offerings and operational expertise, position us well against these competitors.

SEASONALITY

We experience seasonal fluctuations in our sales and profitability due to the timing of certain holidays and key retail shopping periods, which generally have resulted in 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.

TRADEMARKS AND COPYRIGHTS

We own many trademarks and copyrights, including *Carter's®, OshKosh®, OshKosh B'gosh®, Genuine Kids®, Child of Mine®, Just One You®, Precious Firsts®, Little Collections®, Little Layette*™, *Rewarding Moments®,* and *Count on Carter's®*, many of which are registered in the U.S. and in more than 140 countries and territories.

EMPLOYEES

As of January 2, 2016, we had approximately 16,800 employees globally. We have no unionized employees and believe that our labor relations are good.

AVAILABLE INFORMATION

Our primary internet address is www.carters.com. 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. On our website, 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 Securities and Exchange Commission ("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. Our SEC filings are also available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site, www.sec.gov, containing reports, proxy and information statements, and other information regarding issuers 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.

The loss of one or more of our major wholesale customers could result in a material loss of revenues.

We derived approximately 25% of our consolidated net sales from our top five wholesale customers for the fiscal year ended January 2, 2016. We do not enter into long-term sales contracts with our major wholesale customers, relying instead on product performance, long-standing relationships, and on our position in the marketplace. As a result, we face the risk that one or more of these or other customers may significantly decrease their business with us or terminate their relationship with us as a result of competitive forces, consolidation, reorganization, financial difficulties, including bankruptcy or insolvency, or other reasons, which could result in significant levels of excess inventory, a material decrease in our sales, or material impact on our operating results.

Financial difficulties for our major customers or licensees could have a significant impact on us.

A large percentage of our gross accounts receivables are typically from our largest wholesale customers. For example, 79% of our gross accounts receivable at January 2, 2016 were from our ten largest wholesale customers, with five of these customers having individual receivable balances in excess of 10% of our total accounts receivable. 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 or licensees were to deteriorate, or such customer or licensee 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.

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

We believe that continued success depends on our ability to provide a compelling value proposition for our consumers in 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 move seasonal merchandise, and our gross margins and results of operations could be adversely affected.

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

Although we maintain policies with our vendors, independent 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, independent manufacturers, or licensees, or their labor practices. A violation of our vendor policies, licensee agreements, health and safety standards, labor laws, or other policies or laws by these vendors, independent 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 reputation of our brands is maintained through license and vendor agreements, there can be no guarantee that our brand image will not be negatively impacted through its association with products or actions of our licensees or vendors.

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 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 marks, 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, 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.

We are subject to various claims and pending or threatened lawsuits, including as a result of investigations or other proceedings related to previously disclosed investigations, and as a result, may incur substantial costs that adversely affect our business, financial condition, and results of operations.

As previously reported, in 2009 the SEC and the U.S. Attorney's Office began conducting investigations, with which the Company cooperated, related to customer margin support provided by the Company, including undisclosed margin support commitments and related matters. In December 2010, the Company and the SEC entered into a non-prosecution agreement pursuant to which the SEC agreed not to charge the Company with any violations of federal securities laws, commence any enforcement action against the Company, or require the Company to pay any financial penalties in connection with the SEC investigation of customer margin support provided by the Company, conditioned upon the Company's continued cooperation with the SEC's investigation and with any related proceedings. The Company has 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. The Company also expects to bear additional costs pursuant to its advancement and indemnification obligations to directors and officers under our organizational documents in connection with proceedings related to these matters. Our insurance does not provide coverage to offset all of the costs incurred in connection with these proceedings.

In addition, we are subject to various other claims and pending or threatened lawsuits in the course of our business. We are impacted by trends in litigation, including class action litigation brought under various 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 lawsuits, such amounts could exceed any applicable insurance coverage 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.

Our and our vendors' systems containing personal information and payment card 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 and, in certain circumstances, those of third parties, such as vendors, to protect our proprietary information and information about our customers, employees, and vendors. Criminals are constantly devising schemes to circumvent information technology security safeguards and other retailers have recently suffered serious data security breaches. If unauthorized parties gain access to our networks or databases, or those of our vendors, they may be able to steal, publish, delete, or modify our private and sensitive third-party information including credit card information and personal identification information. In addition, employees may intentionally or inadvertently cause data or security breaches that result in unauthorized release of personal or confidential 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 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 card industry, we may be subject to fines, restrictions, and expulsion from card acceptance programs, which could adversely affect our retail operations.

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

The apparel industry is subject to pricing pressure caused by many factors, including intense competition, the promotional retail environment and changes in consumer demand. If these factors cause us to reduce our sales prices and we fail to sufficiently reduce our product costs or operating expenses, our profitability could decline. This could have a material adverse effect on our results of operations, liquidity, and financial condition. In addition, our product costs are subject to fluctuations in costs, such as manufacturing, cotton, labor, fuel, and transportation.

Our business is sensitive to overall levels of consumer spending, particularly in the young children apparel segment.

Consumers' demand for young children's apparel, specifically brand name apparel products, is impacted by the overall level of consumer spending. Discretionary consumer spending is impacted by a number of factors such as the overall economy, employment levels, weather, gasoline and utility costs, business conditions, foreign currency exchange rates, availability of consumer credit, tax rates, interest rates, levels of consumer indebtedness, and overall levels of consumer confidence. 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.

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

We have operations in Canada and Asia and our vendors, independent manufacturers, and licensees are located around the world. The value of the U.S. dollar against other foreign currencies has seen significant volatility recently. 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 business of our independent 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.

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 sourcing agent and directly through our Hong Kong sourcing office. Our foreign supply chain could be negatively affected due to a number of factors, including:

- financial instability, including bankruptcy or insolvency, of one or more of our major vendors;
- political instability or other international events resulting in the disruption of trade in foreign countries from which we source our products;
- interruptions in the supply of raw materials, including cotton, fabric, and trim items;
- increases in the cost of labor in our sourcing locations;
- the imposition of new regulations relating to imports, duties, taxes, and other charges on imports;

- the occurrence of a natural disaster, unusual weather conditions, or a disease epidemic in foreign countries from which we source our products;
- 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 strike, 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, independent 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;
- compliance with disclosure rules regarding the identification and reporting on the use of “conflict minerals” sourced from the Democratic Republic of the Congo or its surrounding countries in our products; and
- other events beyond our control that could interrupt our supply chain and delay receipt of our products into the U.S.

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 get products to our customers.

A 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, results of operations, and financial condition.

In fiscal 2015, we purchased approximately 59% of our products from ten vendors, of which approximately half comes from three vendors. 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 experience financial difficulties, lack of capacity or significant labor disputes) our business, results of operations, and financial condition may be adversely affected.

We have limited control over our vendors and we may experience delays, product recalls, or loss of revenues if our products do not meet our quality standards.

Because we do not control our vendors, our vendors may not continue to provide products that are consistent with our standards. We have occasionally received, and may in the future continue to receive, shipments of product that fail to conform to our quality control standards. A failure in our quality control program may result in diminished product quality, which in turn may result in increased order cancellations and 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.

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 independent factories where our goods are produced, the shipping ports we use, or 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 U.S. Work slowdowns and stoppages relating to labor agreement negotiations involving the operators of our west coast port and unions have in the past resulted in a significant backlog of cargo containers. 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.

We may experience delays, product recalls, or loss of revenues if our products do not meet regulatory requirements.

Our products are subject to regulation of and regulatory standards with respect to quality and safety set by various governmental authorities around the world, including in the U.S., Canada, China, and the European Union. These regulations and standards may change from time to time. Our inability, or that of our vendors, to comply on a timely basis with regulatory requirements could result in significant fines or penalties, which could adversely affect our reputation and sales. Issues with 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, merchandise recalls, and increased costs.

The loss of a sourcing agent or our inability to effectively source inventory directly could negatively impact our ability to timely deliver our inventory supply and disrupt our business, which may adversely affect our operating results.

As of January 2, 2016, one sourcing agent managed approximately 60% of our inventory purchases. Although we believe that other buying agents could be retained, or that we could procure some of the inventory directly, the loss of this buying agent could delay our ability to timely receive inventory supply and disrupt our business, which could result in a material adverse effect on our operating results. We source a significant amount of inventory directly and plan to continue to further increase such amounts. If we experience significant increases in demand or need to replace an existing vendor, 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. Moreover, in the event of a significant disruption in the supply of the fabrics or raw materials used by our vendors in the manufacture of our products, 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.

Profitability and our reputation and relationships could be negatively impacted 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 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 manufacturing facilities or 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.

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, resulting in a loss of market share and, as a result, a decrease in revenue and gross profit.

The baby and young children's apparel 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. 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 acquisition 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.

We expect to make significant capital investments and have significant expenses related to our multi-channel sales strategy and failure to execute our strategy could have a material adverse effect on our business, results of operations, and how we meet consumer expectations.

We distribute our products through multiple channels in the U.S. children's apparel market, which, as of January 2, 2016, included approximately 17,400 wholesale locations (including department stores, national chain and specialty stores, and discount retailers), 982 company-operated stores, and our website. As of January 2, 2016, we operated 835 stores in the U.S. Internationally, our products are sold via company-operated stores in Canada, which totaled 147 as of January 2, 2016, and in our international wholesale, licensing, and online channels. Our multi-channel strategy allows our customers to shop across all sales channels globally, and allows us to meet changing customer experience expectations.

This strategy has and will continue to require significant investment in cross-functional operations and management focus, along with investment in supporting technologies. Multi-channel retailing is rapidly evolving and we must anticipate and meet changing customer expectations and counteract new developments and technology investments by our competitors. Our multi-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 team members 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 carters.com, oshkosh.com, 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 consistently meet our brand promise 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 retail success and future growth is dependent upon identifying locations and negotiating appropriate lease terms for retail stores.

A significant portion of our revenues are through our retail stores in leased retail locations across the U.S. and Canada. Successful operation of a retail store depends, in part, on the overall ability of the retail location to attract a consumer base sufficient to make store sales volume profitable. 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. 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.

We also must be able to effectively renew our existing store leases on acceptable terms. In addition, from time to time, we may seek to 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 locations 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 U.S. and internationally. This could impact the quality of our decisions to exercise lease options at previously negotiated rents and the quality of our decisions to 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 include:

- risks associated with the failure of the computer systems, including those of third-party vendors, that operate our website including, among others, inadequate system capacity, computer viruses, human error, changes in programming, security breaches, system upgrades or migration of these services to new systems;
- disruptions in telephone service or power outages;
- reliance on third parties for computer hardware and software, as well as delivery of merchandise to our customers;
- rapid technology changes;
- credit or debit card fraud;
- 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.

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 the U.S. and Canada. 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. Any of these challenges could 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.

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

The carrying value of our goodwill, tradename assets, and brands 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 impacted if we do not achieve our sales plans, planned cost savings, and other assumptions that support the carrying value of these intangible assets, which could result in impairment of the remaining asset values. 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 January 2, 2016, we had $584.4 million aggregate principal amount of debt outstanding (excluding $7.7 million of outstanding letters of credit), and $307.9 million of undrawn availability under our senior secured revolving credit facility after giving effect to $7.7 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 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 indenture governing the senior notes contain restrictive covenants that, subject to specified exemptions, restrict our ability to incur indebtedness, grant liens, make certain investments, 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. 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. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility.

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, and support function staffing is key to our success. If we are unable to attract and retain qualified individuals in these areas, this may result in an adverse impact on our growth and results of operations. 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.

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

The implementation of our business strategy periodically involves the execution of complex projects, which may require that we make significant estimates and assumptions about a project, and these projects could place significant demands on our accounting, financial, information and other systems and on our business overall. In addition, our ability to successfully implement such projects is dependent on management's ability to manage these projects effectively and implement them successfully. For example, in fiscal 2015 we implemented our *Rewarding Moments®* rewards program to drive customer traffic, sales, and brand loyalty. If our estimates and assumptions about a project, such as our *Rewarding Moments®* program, 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.

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 has grown in size, complexity, and geography, we have enhanced and upgraded our information technology infrastructure and we expect there to be a regular need for additional enhancements and upgrades if we continue to grow. Failure to implement new systems or upgrade systems, including operation 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 investment needed to upgrade and expand our information technology infrastructure will require significant investment of additional resources and capital, which may not always be available or available on favorable terms.

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 all of our stores, and our online retail operations from a single 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 the distribution facility (such as due to a high level of demand during peak periods) or because of natural disasters, 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. 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 direct-to-consumer 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.

Our business could suffer a material adverse effect from extreme or unseasonable weather conditions.

Our business is susceptible to unseasonable weather conditions, which could influence customer trends, consumer traffic and shopping habits. For example, extended periods of unseasonably warm temperatures during the winter season or cool temperatures during the summer season could reduce demand and thereby would have an adverse effect on our operational 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, operational results, financial position, and cash flows. Frequent or unusually heavy snowfall, ice storms, rainstorms, or other extreme weather conditions over an extended period could make it difficult for our customers to travel to our stores, which could negatively impact our operational results.

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, consolidated financial condition or results of operations.

We must comply with various laws and regulations, including applicable employment and consumer protection laws. Our policies, procedures and internal controls are designed to help us comply with all applicable foreign and domestic laws, accounting and reporting requirements, regulations and tax requirements, 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") as well as other laws. Our failure to comply with these various laws and regulations could have an adverse impact on our reputation, consolidated financial condition or results of operations. In addition, any changes in regulations, the imposition of additional regulations or the enactment of any new legislation that affects employment and labor, trade, product safety, transportation and logistics, health care, tax, privacy, operations or environmental issues, among other things, may increase the complexity of the regulatory environment in which we operate and the related cost of compliance. 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 the our business and results of operations.

Our results of operations, financial position, and cash flows, and our ability to conduct business in international markets may be affected by legal, regulatory, political, and economic risks.

Our ability to conduct business in new and existing international markets is subject to legal, regulatory, political, and economic risks. These include the burdens of complying with foreign laws and regulations, including trade and labor restrictions; unexpected changes in regulatory requirements; and new tariffs or other barriers in some international markets. Additionally, the U.S. Foreign Corrupt Practices Act, and similar world-wide anti-bribery laws, prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Our policies mandate compliance with anti-bribery laws. Our internal control policies and procedures, or those of our vendors, may not adequately protect us from reckless or criminal acts committed by our employees, agents, or vendors. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our financial condition, results of operations, and cash flows.

We are also subject to general political and economic risks in connection with our international operations, including political instability and terrorist attacks; differences in business culture; different laws governing relationships with employees and business partners; changes in diplomatic and trade relationships; and general economic fluctuations in specific countries or markets.

We cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the U.S. 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, 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.

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 U.S., Canada, and other foreign jurisdictions. 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 impacted by changes in the mix and level of earnings.

Failure to continue to pay quarterly cash dividends to our shareholders could cause the market price for our common stock to decline.

In 2013, we initiated a quarterly cash dividend. Future declarations of quarterly cash dividends and the establishment of future record and payment dates are at the discretion of our Board of Directors based on a number of factors, including our future financial performance and other investment priorities. Additionally, provisions in our senior credit facility and the indenture governing our senior notes could have the effect of restricting our ability to pay future cash dividends on, or make future repurchases of, our common stock. Any reduction or discontinuance by us of the payment of quarterly cash dividends could cause the market price of our common stock to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We utilize space for retail stores, showrooms, distribution centers, and offices, principally in the U.S. and Canada. The majority of our premises are leased.

The following sets forth information with respect to our key properties:

Location	Approx. floor space in square feet	Principal use	Lease expiration date
Braselton, Georgia	1,062,000	Distribution/warehousing	September 2026
Stockbridge, Georgia	505,000	Distribution/warehousing	April 2018
Chino, California	413,000	Distribution/warehousing *(1)*	July 2017
Atlanta, Georgia	292,000	Corporate headquarters *(2)*	April 2030
Griffin, Georgia	224,000	Information technology	Owned
Fayetteville, Georgia	30,000	Information technology	September 2020
Cambridge, Ontario	277,000	Distribution/warehousing	March 2020
Cambridge, Ontario	37,000	Canadian corporate office *(3)*	June 2021

(1) This space is leased and operated by a third party service provider.

(2) The amount of space occupied is expected to increase to approximately 304,000 square feet by May 2016.

(3) In November 2015, we signed a lease for our new Canadian corporate office in Mississauga, Ontario. The new Canadian corporate office is expected to have approximately 28,000 square feet. During the second or third quarter of fiscal 2016, we expect to occupy the new Canadian corporate office and early terminate, without penalty, the lease on our existing Canadian corporate office.

At January 2, 2016, we operated 835 leased retail stores in 48 states in the U.S. and in Puerto Rico. In Canada, we operated 147 leased retail stores. The majority of the lease terms for our retail stores range between 5 and 10 years.

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 our 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 under the symbol CRI. The last reported sale price per share of our common stock on February 19, 2016 was $87.47. On that date there were 194 holders of record of our common stock.

The following table sets forth for the fiscal years and quarters indicated the high and low sales prices per share of our common stock as reported by the New York Stock Exchange:

2015	High	Low
First quarter	$ 93.89	$ 80.98
Second quarter	$ 108.84	$ 91.92
Third quarter	$ 108.98	$ 87.67
Fourth quarter	$ 94.00	$ 84.08

2014	High	Low
First quarter	$ 77.97	$ 64.84
Second quarter	$ 79.36	$ 67.83
Third quarter	$ 83.52	$ 67.94
Fourth quarter	$ 87.31	$ 75.10

SHARE REPURCHASES

The following table provides information about shares repurchased through our repurchase program described below during the fourth fiscal quarter of 2015:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (2)	Approximate dollar value of shares that may yet be purchased under the plans or programs
October 4, 2015 through October 31, 2015	131,263	$ 89.82	131,263	$ 95,007,894
November 1, 2015 through November 28, 2015	100,972	$ 87.65	100,100	$ 86,233,902
November 29, 2015 through January 2, 2016	127,900	$ 89.03	127,900	$ 74,847,185
Total	360,135		359,263	

(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 872 shares surrendered between October 4, 2015 and January 2, 2016.

(2) Amounts purchased during the fiscal year were made in accordance with the share repurchase authorizations described in Note 8 to the accompanying audited consolidated financial statements contained in this Annual Report on Form 10-K.

Repurchase Program

In the second quarter of fiscal 2013, our Board of Directors authorized the repurchase of shares in an amount up to $300 million, inclusive of amounts remaining under previous authorizations. The total remaining capacity under the repurchase authorizations as of January 2, 2016 was approximately $74.8 million.

On February 24, 2016, our Board of Directors authorized a new $500 million share repurchase program. The new share repurchase authorization permits us to repurchase shares of our common stock up to $500 million, in addition to the approximate $74.8 million remaining at January 2, 2016 under previous authorizations described above.

Repurchases under the authorizations may be made in the open market or in privately-negotiated transactions, with the level and timing of such activity at the discretion of our management depending on market conditions, stock price, other investment priorities, and other factors. The share repurchase authorizations have no expiration dates.

Open Market Purchases

During the fiscal year ended January 2, 2016, we repurchased and retired 1,154,288 shares with an average share price of $95.55 for an aggregate cost of approximately $110.3 million, in open market transactions.

DIVIDENDS

On February 24, 2016, our Board of Directors authorized a quarterly cash dividend payment of $0.33 per common share, payable on March 25, 2016 to shareholders of record at the close of business on March 11, 2016.

In fiscal 2015, we paid quarterly cash dividends of $0.22 per share each quarter. In fiscal 2014, we paid quarterly cash dividends of $0.19 per share each quarter. Future declarations of quarterly dividends and the establishment of future record and payment dates are at the discretion of our Board of Directors based on a number of factors, including our future financial performance and other investment priorities.

Provisions in our secured revolving credit facility and indenture governing our senior notes could have the effect of restricting our ability to pay future cash dividends on or make future repurchases of our common stock. For more information concerning these dividend restrictions, refer to the "Financial Condition, Capital Resources, and Liquidity" section of Item 7 in this Annual Report on Form 10-K.

RECENT SALES OF UNREGISTERED SECURITIES

Not applicable.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial and other data has been derived from our consolidated financial statements for each of the five years presented. The following information should be read in conjunction with Item 7- "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8- "Financial Statements and Supplementary Data" which includes the consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K, or the respective prior fiscal years' Form 10-K.

The Company's fiscal year ends on the Saturday, in December or January, nearest the last day of December, resulting in an additional week of results every five or six years. All fiscal years for which financial information is set forth below contained 52 weeks, except for the fiscal year ended January 3, 2015, which contained 53 weeks.

	For the fiscal years ended				
(dollars in thousands, except per share data)	January 2, 2016	January 3, 2015	December 28, 2013	December 29, 2012	December 31, 2011
Operating Data:					
Retail sales - Carter's	$ 1,151,268	$ 1,087,165	$ 954,160	$ 818,909	$ 671,590
Wholesale sales - Carter's	1,107,706	1,081,888	1,035,420	981,445	939,115
Retail sales - OshKosh	363,087	335,140	289,311	283,343	280,900
Wholesale sales - OshKosh	65,607	73,201	74,564	79,752	81,888
International	326,211	316,474	285,256	218,285	136,241
Total net sales	$ 3,013,879	$ 2,893,868	$ 2,638,711	$ 2,381,734	$ 2,109,734
Cost of goods sold	$ 1,755,855	$ 1,709,428	$ 1,543,332	$ 1,443,786	$ 1,417,456
Gross profit (a)	$ 1,258,024	$ 1,184,440	$ 1,095,379	$ 937,948	$ 692,278
Operating income (b)	$ 392,857	$ 333,345	$ 264,151	$ 261,986	$ 187,466
Income before income taxes	$ 368,188	$ 302,906	$ 249,465	$ 255,391	$ 180,888
Net income	$ 237,822	$ 194,670	$ 160,407	$ 161,150	$ 114,016
Per Common Share Data:					
Basic net income	$ 4.55	$ 3.65	$ 2.78	$ 2.73	$ 1.96
Diluted net income	$ 4.50	$ 3.62	$ 2.75	$ 2.69	$ 1.94
Balance Sheet Data:					
Working capital (c)	$ 868,747	$ 793,487	$ 701,242	$ 713,468	$ 629,394
Total assets	$ 2,009,113	$ 1,893,096	$ 1,812,484	$ 1,630,109	$ 1,402,709
Total debt	$ 584,431	$ 586,000	$ 586,000	$ 186,000	$ 236,000
Stockholders' equity	$ 875,051	$ 786,684	$ 700,731	$ 985,479	$ 805,709
Cash Flow Data:					
Net cash provided by operating activities	$ 307,987	$ 282,397	$ 209,696	$ 278,619	$ 81,074
Net cash (used in) investing activities	$ (103,425)	$ (104,732)	$ (220,532)	$ (83,392)	$ (106,692)
Net cash (used in) provided by financing activities	$ (162,005)	$ (122,438)	$ (84,658)	$ (46,317)	$ 11,505
Other Data:					
Capital expenditures	$ 103,497	$ 103,453	$ 182,525	$ 83,398	$ 45,495
Dividend declared and paid per common share	$ 0.88	$ 0.76	$ 0.48	$ —	$ —

NOTES TO SELECTED FINANCIAL DATA

(a) Gross profit in fiscal 2011 includes $6.7 million in additional expenses related to the amortization of the fair value step-up of inventory acquired as a result of the acquisition of our former licensee, Bonnie Togs, in 2011.

(b) The following selling, general, & administrative expenses were included in the calculation of operating income:

	For the fiscal years ended				
(dollars in thousands)	**January 2, 2016**	**January 3, 2015**	**December 28, 2013**	**December 29, 2012**	**December 31, 2011**
Amortization of H.W. Carter and Sons tradenames	$ 6,239	$ 16,437	$ 13,588	$ —	$ —
Workforce reduction, facility write-down, and closure costs	$ —	$ 9,126	$ 38,214	$ 9,490	$ —
Accretion and adjustment of contingent consideration	$ 1,886	$ 1,348	$ 2,825	$ 3,589	$ 2,484
Acquisition-related charges	$ —	$ —	$ —	$ —	$ 3,050

(c) Represents total current assets less total current liabilities.

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 services, 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 in the "Risk Factors" in 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 the 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.

Fiscal Year

Our fiscal year ends on the Saturday, in December or January nearest the last day of December, resulting in an additional week of results every five or six years. Fiscal 2015, which ended on January 2, 2016, contained 52 weeks. Fiscal 2014, which ended on January 3, 2015, contained 53 weeks. Fiscal 2013, which ended on December 28, 2013, contained 52 weeks.

The 53rd week in fiscal 2014 contributed approximately $44.1 million of incremental consolidated revenue. Certain expenses increased in relationship to the additional revenue from the 53rd 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 incremental revenue was comparable to our consolidated gross margin for all of fiscal 2014.

Our Business

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

In the U.S., our brands compete in the $20.5 billion children's apparel market, for children ages zero to seven. In 2015, our *Carter's* brand was the largest brand with a 14.6% market share and our *OshKosh* brand had a 2.3% market share. We offer multiple product categories, including baby, sleepwear, playclothes, and related accessories. Our distribution strategy enables us to reach a broad range of consumers across various channels, socio-economic groups, and geographic regions.

We distribute our products through multiple channels of distribution in the U.S. children's apparel market, which, as of January 2, 2016, includes approximately 17,400 wholesale locations (including department stores, national chain stores, specialty stores, and discount retailers), 982 Company-operated stores, and our websites. As of January 2, 2016, we operated 594 Carter's and 241 OshKosh stores in the U.S. As of January 2, 2016, our products were sold through 147 Company-operated stores in Canada in addition to our international wholesale, licensing, and online channels.

We operate "side-by-side" locations wherein adjacent retail stores for our *Carter's* and *OshKosh* brands are connected, allowing customers to shop for both brands in a single location. Each "side-by-side" location is counted as one Carter's retail store and one OshKosh retail store. As of January 2, 2016, the U.S. store count data presented in the preceding paragraph includes 97 such "side-by-side" locations for both Carter's and OshKosh.

Segments

The five segments we use to manage and evaluate our performance are: Carter's Retail, Carter's Wholesale, OshKosh Retail, OshKosh Wholesale, and International. These segments are our operating and reportable segments.

RESULTS OF OPERATIONS

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

	For the fiscal years ended		
	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)	December 28, 2013 (52 weeks)
Net sales			
Carter's Retail	38.2%	37.6%	36.2%
Carter's Wholesale	36.8%	37.4%	39.2%
Total Carter's (U.S.)	75.0%	75.0%	75.4%
OshKosh Retail	12.0%	11.6%	11.0%
OshKosh Wholesale	2.2%	2.5%	2.8%
Total OshKosh (U.S.)	14.2%	14.1%	13.8%
International	10.8%	10.9%	10.8%
Consolidated net sales	100.0%	100.0%	100.0%
Cost of goods sold	58.3%	59.1%	58.5%
Gross profit	41.7%	40.9%	41.5%
Selling, general, and administrative expenses	30.2%	30.8%	32.9%
Royalty income	(1.5)%	(1.4)%	(1.4)%
Operating income	13.0%	11.5%	10.0%
Interest expense	0.9%	1.0%	0.5%
Interest income	n/m	n/m	n/m
Other (income) expense, net	(0.1)%	0.1%	n/m
Income before income taxes	12.2%	10.4%	9.5%
Provision for income taxes	4.3%	3.7%	3.4%
Net income	7.9%	6.7%	6.1%
Number of retail stores at end of fiscal year:			
Carter's - U.S.	594	531	476
OshKosh - U.S.	241	200	181
International	147	124	117
Total	982	855	774

n/m—rounds to less than 0.1%, therefore not material.

Note: Results may not be additive due to rounding.

STORE COUNT DATA

		Carter's Retail	OshKosh Retail	Canada	Total
Fiscal 2014:	Openings	61	27	23	111
	Closings	6	8	1	15
Fiscal 2015:	Openings	67	47	23	137
	Closings	4	6	—	10
Projections for fiscal 2016:	Openings	60	52	19	131
	Closings	4	5	1	10

Most all of the OshKosh retail store openings included in the above table are in a "side-by-side" format with a Carter's retail store.

COMPARABLE SALES METRICS

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

Our fiscal years 2015 and 2013 each contained 52 weeks, while our fiscal year 2014 contained 53 weeks. When presenting U.S. and Canada comparable retail sales, the following adjustments to sales metrics were used to align periods for comparability:

- When comparing 2015 to 2014, comparable 52-week periods were used; and
- When comparing 2014 to 2013, comparable 53-week periods were used.

However, in all other discussion and analysis related to fiscal years 2015, 2014, and 2013, the net sales amounts are based on the same fiscal-year periods used to prepare the consolidated financial statements.

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

FISCAL YEAR ENDED JANUARY 2, 2016 (52 WEEKS) COMPARED TO FISCAL YEAR ENDED JANUARY 3, 2015 (53 WEEKS)

U.S. COMPARABLE RETAIL SALES

The following table presents the percentage changes for our U.S. direct-to-consumer ("DTC") comparable sales:

	U.S. Direct-to-Consumer Comparable Sales	
	Change from 2014 to 2015	
Increase (Decrease)	Carter's Retail	OshKosh Retail
Stores	(3.1)%	(2.5)%
eCommerce	+18.9%	+24.0%
Total DTC	+1.2%	+2.4%

The decreases in Carter's Retail and OshKosh Retail comparable store sales during the 2015 period were primarily due to decreases in the number of transactions and the average price per unit.

During the 2015 period, we believe that total DTC comparable sales were negatively impacted by lower demand from international tourists shopping in our U.S. stores and eCommerce websites, likely resulting from the strength of the U.S. dollar relative to other global currencies.

The increases in eCommerce comparable sales during the 2015 period were primarily due to an increase in the number of transactions.

CONSOLIDATED NET SALES

Compared to fiscal 2014, consolidated net sales in fiscal 2015 increased $120.0 million, or 4.1%, to $3.0 billion. This improvement was primarily due to sales growth in all of our segments except OshKosh Wholesale. The 53rd week in fiscal 2014 contributed approximately $44.1 million in additional consolidated net sales in fiscal 2014. Fiscal 2015 contained 52 weeks. Changes in foreign currency exchange rates in fiscal 2015 as compared to fiscal 2014 negatively impacted consolidated net sales by approximately $35.1 million, or 1.2%.

	For the fiscal years ended			
(dollars in thousands)	**January 2, 2016 (52 weeks)**	**% of Total Net Sales**	**January 3, 2015 (53 weeks)**	**% of Total Net Sales**
Net sales:				
Carter's Retail	$1,151,268	38.2%	$1,087,165	37.6%
Carter's Wholesale	1,107,706	36.8%	1,081,888	37.4%
Total Carter's (U.S.)	2,258,974	75.0%	2,169,053	75.0%
OshKosh Retail	363,087	12.0%	335,140	11.6%
OshKosh Wholesale	65,607	2.2%	73,201	2.5%
Total OshKosh (U.S.)	428,694	14.2%	408,341	14.1%
International	326,211	10.8%	316,474	10.9%
Total net sales	$3,013,879	100.0%	$2,893,868	100.0%

CARTER'S RETAIL SALES (U.S.)

Carter's Retail net sales increased $64.1 million, or 5.9%, in fiscal 2015 to $1.2 billion. The change in fiscal 2015 was primarily driven by an/a:

- Increase of $68.9 million from new store openings;
- Increase of $38.5 million in eCommerce sales;
- Decrease of $25.9 million in comparable store sales; and
- Decrease of $4.0 million due to the impact of store closings.

The 53rd week of fiscal 2014 contributed additional net sales of approximately $13.7 million to fiscal 2014.

CARTER'S WHOLESALE SALES (U.S.)

Carter's Wholesale net sales increased $25.8 million, or 2.4%, in fiscal 2015 to $1.1 billion. Compared to fiscal 2014, the 2015 growth reflected a 1.5% increase in average price per unit and a 0.9% increase in units shipped, primarily driven by increased seasonal product demand, a new playwear initiative, and favorable replenishment trends. The 53rd week of fiscal 2014 contributed approximately $19.4 million in additional net sales to fiscal 2014.

OSHKOSH RETAIL SALES (U.S.)

OshKosh Retail net sales increased $27.9 million, or 8.3%, in fiscal 2015 to $363.1 million. The growth in net sales in fiscal 2015 was primarily driven by an/a:

- Increase of $30.9 million from new store openings;
- Increase of $14.2 million in eCommerce sales;
- Decrease of $6.5 million in comparable store sales; and
- Decrease of $6.0 million due to the impact of store closings.

The 53rd week of fiscal 2014 contributed additional net sales of approximately $4.8 million to fiscal 2014.

OSHKOSH WHOLESALE SALES (U.S.)

OshKosh Wholesale net sales decreased $7.6 million, or 10.4%, in fiscal 2015 to $65.6 million. Compared to fiscal 2014, this decrease reflected a 15.8% decline in units shipped, partially offset by a 5.4% increase in the average price per unit, primarily driven by lower seasonal bookings and a decline in sales to the off-price channel. The 53rd week of fiscal 2014 contributed additional net sales of approximately $1.9 million to fiscal 2014.

INTERNATIONAL SALES

Net sales in our International segment include our Canada operations, wholesale sales to our international licensees, China eCommerce and other international eCommerce sales.

International net sales increased $9.7 million, or 3.1%, in fiscal 2015 to $326.2 million. Changes in foreign currency exchange rates in fiscal 2015 as compared to fiscal 2014, primarily between the U.S. dollar and the Canadian dollar, negatively impacted the International segment net sales by approximately $35.1 million, or 11.1%.

This overall increase in sales for fiscal 2015 primarily reflected an/a:

- Increase of $9.6 million from international wholesale locations, excluding Canada;
- Increase of $7.2 million from eCommerce driven primarily by our Canadian website;
- Increase of $6.9 million from our Canadian retail stores;
- Increase of $5.9 million from eCommerce primarily due to the 2015 launch of our website in China;
- Decrease of $15.0 million in our wholesale business primarily due to the Target Canada bankruptcy that occurred in early 2015; and
- Decrease of $4.4 million related to the exit of retail operations in Japan during the first quarter of fiscal 2014.

The changes noted above include approximately $4.3 million of additional net sales that occurred in the 53rd week of fiscal 2014.

Comparable store sales, which were measured based on aligned years as previously discussed, in Canada increased 6.4% during the 2015 compared to 2014. Because 2014 did not contain a full year of sales from our Canadian eCommerce website, comparable eCommerce metrics are not presented for 2015.

GROSS PROFIT AND GROSS MARGIN

Our consolidated gross profit increased $73.6 million, or 6.2%, to $1.3 billion in fiscal 2015, primarily due to increased sales. Consolidated gross margin increased from 40.9% in fiscal 2014 to 41.7% in fiscal 2015. The increase was primarily attributable to margin improvements in our domestic wholesale and international segments.

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

SELLING, GENERAL, AND ADMINISTRATIVE (“SG&A”) EXPENSES

Consolidated SG&A expenses in fiscal 2015 increased $19.0 million, or 2.1%, to $909.2 million. As a percentage of consolidated net sales, consolidated SG&A expenses decreased from 30.8% in fiscal 2014 to 30.2% in fiscal 2015.

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

- $10.2 million decrease in amortization expense for the H.W. Carter & Sons trademarks;
- $6.7 million decrease in provisions for doubtful receivables;
- $6.6 million decrease in expenses associated with office consolidations occurring in prior periods;
- $6.5 million decrease in expenses for legal and consulting services;
- $6.3 million decrease in fulfillment and distribution expenses;
- $4.0 million decrease in expenses related to our exit from Japan retail operations in the first quarter of fiscal 2014; and
- $2.0 million decrease in incentive compensation expenses;

which were partially offset by a:

- $29.8 million increase in expenses related to retail store operations, primarily due to new stores;
- $10.5 million increase in expenses related to marketing and brand management;
- $6.3 million increase in insurance and other benefits primarily due to higher health insurance costs; and
- $1.8 million increase in the Company’s match of 401(k) contributions due to higher employee participation.

ROYALTY INCOME

We license the use of our *Carter’s*, *Just One You*, *Child of Mine*, *OshKosh B’gosh, OshKosh*, *Genuine Kids from OshKosh*, and *Precious Firsts* brand names. Royalty income from these brands increased $4.9 million, or 12.5%, to $44.1 million in fiscal 2015. The increase in fiscal 2015 primarily reflected growth in both our domestic Carter’s and OshKosh licensing revenues, along with the timing of favorable settlements with our licensees in the first half of fiscal 2015.

OPERATING INCOME

Compared to fiscal 2014, consolidated operating income for fiscal 2015 increased $59.5 million, or 17.9%, to $392.9 million. Consolidated operating margin increased from 11.5% in fiscal 2014 to 13.0% in fiscal 2015. The table below summarizes the changes in each of our segments' operating results and unallocated corporate expenses during fiscal 2015:

(dollars in thousands)	Carter's Wholesale	Carter's Retail	OshKosh Wholesale	OshKosh Retail	International	Unallocated Corporate Expenses	Total
Operating income (loss) for fiscal 2014	$185,463	$211,297	$ 8,842	$ 8,210	$39,470	$(119,937)	$333,345
Increase (decrease) in:							
Gross profit	32,872	20,214	2,114	12,073	7,974	(1,663)	73,584
Royalty income	1,832	1,627	1,438	969	(956)	—	4,910
SG&A expenses	(12,330)	34,098	(876)	9,321	(516)	(10,715)	18,982
Operating income (loss) for fiscal 2015	$232,497	$199,040	$13,270	$11,931	$47,004	$(110,885)	$392,857

The following table summarizes the operating margin for each of our five operating segments in fiscal 2014 and fiscal 2015, as well as the primary drivers of the change in operating margin between those two periods. Each driver is presented in terms of the difference in that driver's margin (based on net sales) between fiscal 2014 and fiscal 2015, in each case expressed in basis points ("bps").

	Carter's Retail	Carter's Wholesale	OshKosh Retail	OshKosh Wholesale	International
Operating margin for fiscal 2014	19.4%	17.1%	2.4%	12.1%	12.5%
Favorable (unfavorable) bps changes in fiscal 2015:					
Gross profit	(130) bps	240 bps	(40) bps	540 bps	110 bps
Royalty income	10 bps	10 bps	20 bps	350 bps	(40) bps
SG&A expenses	(90) bps	140 bps	110 bps	(80) bps	120 bps
Operating margin for fiscal 2015	17.3%	21.0%	3.3%	20.2%	14.4%
	(a)	(b)	(c)	(d)	(e)

(a) Carter's Retail operating income in fiscal 2015 decreased $12.3 million, or 5.8%, from fiscal 2014 to $199.0 million. The segment's operating margin decreased 210 bps from 19.4% in fiscal 2014 to 17.3% in fiscal 2015. The primary drivers of the change in the operating margin were a:

- 130 bps decrease in gross profit primarily due to lower average price per unit; and
- 90 bps increase in SG&A expenses mainly due to a:
  - 60 bps increase in marketing expenses; and
  - 50 bps increase in expenses associated with new stores.

(b) Carter's Wholesale operating income in fiscal 2015 increased $47.0 million, or 25.4%, from fiscal 2014 to $232.5 million. The segment's operating margin increased 390 bps from 17.1% in fiscal 2014 to 21.0% in fiscal 2015. The primary drivers of the change in the operating margin were a:

- 240 bps increase in gross profit primarily due to strong demand and product performance, supply chain efficiencies, favorable product costs, and higher average price per unit as a result of product mix; and

- 140 bps decrease in SG&A expenses consisting primarily of a:
  - 100 bps decrease in distribution and other expenses driven by efficiencies at our Braselton, Georgia distribution center; and
  - 20 bps decrease related to provisions for accounts receivable.

(c) OshKosh Retail operating income in fiscal 2015 increased $3.7 million, or 45.3%, from fiscal 2014 to $11.9 million. The segment's operating margin increased 90 bps from 2.4% in fiscal 2014 to 3.3% in fiscal 2015. The primary drivers of the change in the operating margin were a:

- 110 bps decrease in SG&A expenses primarily due to a:
  - 70 bps decrease in retail administration expenses;
  - 60 bps decrease in fulfillment and distribution expenses; and
  - 40 bps increase in marketing expenses;
- 20 bps increase in royalty income from our licensees; and
- 40 bps decrease in gross profit due to lower average price per unit.

(d) OshKosh Wholesale operating income in fiscal 2015 increased $4.4 million, or 50.1%, from fiscal 2014 to $13.3 million. The segment's operating margin increased 810 bps from 12.1% in fiscal 2014 to 20.2% in fiscal 2015. The primary drivers of the change in the operating margin were a:

- 540 bps increase in gross profit primarily due to favorable product costs and a higher average price per unit as a result of product mix;
- 350 bps increase in royalty income primarily due to sales growth from our licensees; and
- 80 bps increase in SG&A expenses primarily due to a:
  - 190 bps increase in customer service expenses; and
  - 80 bps decrease in distribution and freight expenses.

(e) International operating income in fiscal 2015 increased $7.5 million, or 19.1%, from fiscal 2014 to $47.0 million. This segment's operating margin increased 190 bps from 12.5% in fiscal 2014 to 14.4% in fiscal 2015. The primary drivers of the change in the operating margin were a:

- 110 bps increase in gross profit driven primarily by growth in our eCommerce channel;
- 40 bps decrease in royalty income; and
- 120 bps decrease in SG&A expenses consisting mainly of a:
  - 210 bps decrease due to the exit of retail operations in Japan in the first quarter of fiscal 2014;
  - 60 bps decrease in customer service expenses;
  - 40 bps decrease related to provisions for accounts receivable;
  - 90 bps increase in retail expenses associated with new stores in Canada;
  - 60 bps increase in marketing expenses; and
  - 60 bps increase in distribution and freight expenses.

Unallocated corporate expenses decreased by $9.1 million, from $119.9 million in fiscal 2014 to $110.9 million in fiscal 2015. Unallocated corporate expenses as a percentage of consolidated net sales decreased from 4.1% in fiscal 2014 to 3.7% in fiscal 2015. The decrease primarily reflected a/an:

- Decrease of $10.2 million in amortization expense for the H.W. Carter & Sons tradenames;
- Decrease of $6.6 million in expenses related to office consolidations that occurred in prior periods;
- Decrease of $4.0 million in administrative and legal expenses;
- Increase of $8.0 million in insurance and other benefits, primarily driven by higher employee health insurance costs and higher 401-K match expense due to higher employee participation; and
- Increase of $4.2 million in expenses related to information technology.

INTEREST EXPENSE

Interest expense and effective interest rate calculations include the amortization of debt issuance costs.

Interest expense in fiscal 2015 decreased $0.6 million from fiscal 2014 to $27.0 million. Weighted-average borrowings for fiscal 2015 were $585.9 million at an effective interest rate of 4.59%, compared to weighted-average borrowings for fiscal 2014 of $586.0 million at an effective interest rate of 4.68%. The decrease in the effective interest rate for fiscal 2015 compared to fiscal 2014 was due primarily to a lower interest rate on the U.S. borrowings outstanding under our amended revolving credit agreement, partially offset by a higher interest rate on the new Canadian portion of the outstanding borrowings on our amended revolving credit agreement and higher debt issuance costs.

During fiscal 2015, we amended our revolving credit agreement to, among other things, achieve better pricing terms. The change in weighted-average borrowings between fiscal 2015 and fiscal 2014 was due solely to changes in foreign currency exchange rates between the U.S. and Canadian dollars.

OTHER EXPENSE, NET

Other expense (income), net is comprised primarily of net gains and losses on foreign currency transactions and foreign currency contracts. The amounts related to foreign currency represented a gain of $1.8 million for fiscal 2015 and a loss of $3.2 million for fiscal 2014.

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 Canadian dollar, in fiscal 2015 our Canadian subsidiary began using foreign currency forward contracts to hedge currency exposure on purchases that are made in U.S. dollars, primarily for inventory.

INCOME TAXES

Our consolidated effective tax rates for fiscal 2015 and 2014 were 35.4% and 35.7%, respectively.

NET INCOME

Our consolidated net income for fiscal 2015 increased $43.2 million, or 22.2%, to $237.8 million as compared to $194.7 million in fiscal 2014, due to the factors previously discussed.

FISCAL YEAR ENDED JANUARY 3, 2015 (53 WEEKS) COMPARED TO FISCAL YEAR ENDED DECEMBER 28, 2013 (52 WEEKS)

U.S. COMPARABLE RETAIL SALES

The following table presents the percentage changes for our U.S. DTC comparable sales which were measured based on aligned years as previously discussed:

	U.S. Direct-to-Consumer Comparable Sales	
	Change from 2013 to 2014	
Increase (Decrease)	Carter's Retail	OshKosh Retail
Stores	(1.0)%	+3.3%
eCommerce	+26.1%	+27.4%
Total DTC	+3.7%	+7.3%

The increases in eCommerce comparable sales during the 2014 period were primarily due to an increase in the number of transactions.

CONSOLIDATED NET SALES

Compared to fiscal 2013, consolidated net sales in fiscal 2014 increased $255.2 million, or 9.7%, to 2.9 billion. The growth primarily reflected strength in both our Carter's segments and in our OshKosh Retail segment. The 53rd week in fiscal 2014 contributed approximately $44.1 million in additional consolidated net sales. Changes in foreign currency exchange rates in fiscal 2014 as compared to fiscal 2013 negatively impacted consolidated net sales by approximately $16.0 million, or 0.6%.

	For the fiscal years ended			
(dollars in thousands)	January 3, 2015 (53 weeks)	% of Total Net Sales	December 28, 2013 (52 weeks)	% of Total Net Sales
Net sales:				
Carter's Retail	$1,087,165	37.6%	$ 954,160	36.2%
Carter's Wholesale	1,081,888	37.4%	1,035,420	39.2%
Total Carter's	2,169,053	75.0%	1,989,580	75.4%
OshKosh Retail	335,140	11.6%	289,311	11.0%
OshKosh Wholesale	73,201	2.5%	74,564	2.8%
Total OshKosh	408,341	14.1%	363,875	13.8%
International	316,474	10.9%	285,256	10.8%
Total net sales	$2,893,868	100.0%	$2,638,711	100.0%

CARTER'S RETAIL SALES

Carter's Retail net sales increased $133.0 million, or 13.9%, in fiscal 2014 to $1.1 billion. The increase in fiscal 2014 was primarily driven by an/a:

- Increase of $87.7 million from new store openings;
- Increase of $43.2 million in eCommerce sales;
- Decrease of $9.0 million in comparable store sales driven by a decline in the number of transactions;

- Decrease of $3.3 million due to the impact of store closings; and
- Increase of $13.7 million in incremental net sales during the 53rd week of fiscal 2014, exclusive of the other factors noted above.

CARTER'S WHOLESALE SALES

Carter's Wholesale net sales increased $46.5 million, or 4.5%, in fiscal 2014 to $1.1 billion. This growth was reflected a 3.9% increase in average price per unit and a 0.6% increase in units shipped, as compared to fiscal 2013. Additionally, the 53rd week in fiscal 2014 contributed approximately $19.4 million in additional net sales to the Carter's Wholesale segment.

OSHKOSH RETAIL SALES

OshKosh Retail net sales increased $45.8 million, or 15.8%, in fiscal 2014 to $335.1 million. The growth in net sales in fiscal 2014 was primarily driven by an/a:

- Increase of $25.4 million from new store openings;
- Increase of $12.7 million in eCommerce sales;
- Increase of $7.0 million in comparable store sales driven by an increase in the average transaction value;
- Decrease of $4.4 million due to the impact of store closings; and
- Increase of $4.8 million in incremental net sales during the 53rd week of fiscal 2014, exclusive of the other factors noted above.

OSHKOSH WHOLESALE SALES

OshKosh Wholesale net sales decreased $1.4 million, or 1.8%, in fiscal 2014 to $73.2 million. Compared to fiscal 2013, the decrease in wholesale net sales reflected a 2.6% decline in units shipped, partially offset by a 0.8% increase in average price per unit. Additionally, the 53rd week in fiscal 2014 contributed approximately $1.9 million in net sales to our OshKosh wholesale segment.

INTERNATIONAL SALES

Net sales in our International segment included our Canada and Japan retail operations, Canada wholesale sales, international eCommerce, and wholesale sales.

International net sales increased $31.2 million, or 10.9%, in fiscal 2014 to $316.5 million. This overall increase in net sales for fiscal 2014 reflected:

- $14.0 million in incremental sales in our international wholesale locations excluding Canada;
- $12.4 million in incremental sales in our Canadian wholesale business;
- $11.8 million in incremental sales in our Canadian retail stores primarily due to new store openings; and
- $4.4 million in incremental sales from our international eCommerce business primarily due to the launch of the Canada website in fiscal 2014.

These increases were partially offset by an $11.5 million decrease in our retail operations in Japan, which we substantially exited in the first quarter of fiscal 2014. Changes in foreign currency exchange rates in fiscal 2014 as compared to fiscal 2013 negatively impacted the International segment's net sales by approximately $16.0 million, or 5.7%. Additionally, sales that occurred during the 53rd week of fiscal 2014 totaled $4.3 million for our International segment.

Comparable store sales in Canada declined 3.4% in fiscal 2014, which reflected the combined growth in the *Carter's* and *OshKosh* branded products that was more than offset by the discontinuation of the legacy Bonnie Togs private label brands.

GROSS PROFIT AND GROSS MARGIN

Our consolidated gross profit increased $89.1 million, or 8.1%, to $1.2 billion in fiscal 2014. Consolidated gross margin decreased from 41.5% in fiscal 2013 to 40.9% in fiscal 2014, primarily attributable to higher product costs and unfavorable foreign exchange rate movements, partially offset by a favorable mix of direct-to-consumer business and favorable freight expenses.

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

SELLING, GENERAL, AND ADMINISTRATIVE ("SG&A") EXPENSES

Consolidated SG&A expenses in fiscal 2014 increased $21.8 million, or 2.5%, to $890.3 million. As a percentage of consolidated net sales, consolidated SG&A expenses decreased from 32.9% in fiscal 2013 to 30.8% in fiscal 2014.

The decrease in consolidated SG&A expenses, as a percentage of consolidated net sales, in fiscal 2014 primarily reflected a:

- $26.6 million decrease in expenses associated with the office consolidation;
- $13.0 million decrease in associated with our exit from Japan retail operations in the first quarter of 2014;
- $7.7 million decrease in marketing expenses;
- $3.3 million decrease in expenses associated with insurance and other employee benefits; and
- $1.0 million decrease in incentive compensation expenses.

ROYALTY INCOME

We license the use of our *Carter's*, *Just One You*, *Child of Mine*, *OshKosh B'gosh, OshKosh*, *Genuine Kids from OshKosh,* and *Precious Firsts* brand names. Royalty income from these brands increased $1.9 million, or 5.1%, to $39.2 million in fiscal 2014.

OPERATING INCOME

Compared to 2013, consolidated operating income increased $69.2 million, or 26.2%, to $333.3 million in fiscal 2014. The table below summarizes the changes in each of our segments' operating results and unallocated corporate expenses during fiscal 2014:

(dollars in thousands)	Carter's Wholesale	Carter's Retail	OshKosh Wholesale	OshKosh Retail	International	Unallocated Corporate Expenses	Total
Operating income (loss) for fiscal 2013	$185,501	$181,169	$ 9,796	$ (1,433)	$40,641	$(151,523)	$264,151
Increase (decrease) in:							
Gross profit	2,240	63,458	(1,125)	21,210	2,070	1,208	89,061
Royalty income	(508)	1,297	263	316	536	—	1,904
SG&A expenses	1,770	34,627	92	11,883	3,777	(30,378)	21,771
Operating income (loss) for fiscal 2014	$185,463	$211,297	$ 8,842	$ 8,210	$39,470	$(119,937)	$333,345

The following table summarizes the operating margin for each of our five operating segments in fiscal 2013 and fiscal 2014, as well as the primary drivers of the change in operating margin between those two periods. Each driver is presented in terms of the difference in that driver's margin (based on net sales) between fiscal 2013 and fiscal 2014, in each case expressed in basis points ("bps").

	Carter's Retail	Carter's Wholesale	OshKosh Retail	OshKosh Wholesale	International
Operating margin for fiscal 2013	19.0%	17.9%	(0.5)%	13.1%	14.2%
Favorable (unfavorable) bps change in fiscal 2014:					
Gross profit	(90) bps	(100) bps	(20) bps	(120) bps	(400) bps
Royalty income	—	(10) bps	—	60 bps	—
SG&A expenses	130 bps	30 bps	310 bps	(40) bps	230 bps
Operating margin for fiscal 2014	19.4%	17.1%	2.4%	12.1%	12.5%
	(a)	(b)	(c)	(d)	(e)

(a) Carter's Retail operating income in fiscal 2014 increased $30.1 million, or 16.6%, from fiscal 2013 to $211.3 million. The segment's operating margin increased 40 bps from 19.0% in fiscal 2013 to 19.4% in fiscal 2014. The primary drivers of the change in the operating margin were a:

- 130 bps decrease in SG&A expenses due primarily to a/an:
  - 120 bps decrease in distribution and freight expenses;
  - 40 bps decrease in marketing expenses due to the absence of television advertising in fiscal 2014;
  - 40 bps increase in administrative expenses; and
  - 90 bps decrease in gross profit primarily due to less favorable product costs.

(b) Carter's Wholesale operating income was $185.5 million for both fiscal 2014 and fiscal 2013. The segment's operating margin decreased 80 bps from 17.9% in fiscal 2013 to 17.1% in fiscal 2014. The primary drivers of the change in the operating margin were a:

- 100 bps decrease in gross profit primarily due to less favorable product costs, partially offset by lower air freight related to inventory; and

- 30 bps decrease in SG&A expenses consisting primarily of a:
    - 50 bps decrease in administrative expenses primarily due to cost savings from the office consolidation;
    - 30 bps decrease in marketing expenses primarily due to the absence of television advertising in fiscal 2014; and
    - 60 bps increase in distribution costs.

(c) OshKosh Retail operating income in fiscal 2014 increased $9.6 million from fiscal 2013 to $8.2 million. The segment's operating margin increased 290 bps from (0.5)% in fiscal 2013 to 2.4% in fiscal 2014. The primary drivers of the change in the operating margin were a:

- 310 bps decrease in SG&A expenses consisting primarily of a:
    - 250 bps decrease in retail store and eCommerce operating expenses;
    - 60 bps decrease in marketing expenses; and
- 20 bps decrease in gross profit due primarily to less favorable product costs.

(d) OshKosh Wholesale operating income in fiscal 2014 decreased $1.0 million, or 9.7%, from fiscal 2013 to $8.8 million. The segment's operating margin decreased 100 bps from 13.1% in fiscal 2013 to 12.1% in fiscal 2014. The primary drivers of the change in the operating margin were a:

- 120 bps decrease in gross profit mainly due to less favorable product costs, inventory provisions, and increased promotional pricing;
- 60 bps increase in royalty income; and
- 40 bps increase in SG&A expenses primarily due to a:
    - 120 bps increase in distribution and freight costs;
    - 60 bps increase in administrative expenses; and
    - 160 bps decrease in marketing expenses primarily due to less advertising in fiscal 2014.

(e) International operating income in fiscal 2014 decreased $1.2 million, or 2.9%, from fiscal 2013 to $39.5 million. This segment's operating margin decreased 170 bps from 14.2% in fiscal 2013 to 12.5% in fiscal 2014. The primary drivers of the change in the operating margin were a:

- 400 bps decrease in gross profit primarily due to less favorable product costs and increased promotional pricing;
- 230 bps decrease in SG&A expenses due primarily to a:
    - 250 bps decrease in retail administration expenses due to the exit of retail operations in Japan;
    - 130 bps decrease in operating expenses related to our retail store and eCommerce; and
    - 120 bps increase in distribution and freight expenses.

Unallocated corporate expenses decreased by $31.6 million, from $151.5 million in fiscal 2013 to $119.9 million in fiscal 2014. Unallocated corporate expenses as a percentage of consolidated net sales decreased from 5.7% in fiscal 2013 to 4.1% in fiscal 2014. The decrease in unallocated corporate expenses primarily reflected a:

- Decrease of $26.6 million in expenses related to the completion of office consolidation and facility closures; and
- Decrease of $3.3 million in insurance and other employee benefits.

INTEREST EXPENSE

Interest expense in fiscal 2014 increased $14.2 million from fiscal 2013 to $27.7 million. Weighted-average borrowings for fiscal 2014 were $586.0 million at an effective interest rate of 4.68%, compared to weighted-average borrowings for fiscal 2013 of $338.7 million at an effective interest rate of 3.92%. The increase in the effective interest rate (which includes the effect of the amortization of debt issuance costs) was primarily the result of a full year of interest expense in fiscal 2014 on the $400 million senior notes that were issued in the third quarter of 2013 at an interest rate of 5.25%.

Our financial results are subject to risks from interest rate fluctuations on our secured revolving credit facility, which carries variable interest rates. As of January 3, 2015, our outstanding variable rate debt aggregated $186.0 million. An increase or decrease of 1% in the applicable rate for our weighted-average borrowings would have increased or decreased our fiscal 2014 interest expense by approximately $1.9 million.

OTHER EXPENSE, NET

Other expenses, net, in fiscal 2014 increased $1.3 million, or 66.3% from fiscal 2013 to $3.2 million primarily due to higher foreign currency losses in fiscal 2014.

INCOME TAXES

Our consolidated effective tax rate for both fiscal 2014 and fiscal 2013 was 35.7%.

NET INCOME

Our consolidated net income for fiscal 2014 increased $34.3 million, or 21.4%, to $194.7 million as compared to $160.4 million in fiscal 2013 due to the cumulative impact of all the factors previously discussed.

FINANCIAL CONDITION, CAPITAL RESOURCES, AND LIQUIDITY

Our primary cash needs are for working capital and capital expenditures. We expect that our primary sources of liquidity will continue to be cash and cash equivalents on hand, cash flow from operations, and borrowings available under our secured revolving credit facility. We expect that these sources will fund our ongoing requirements for the foreseeable future. Further, we do not expect current economic conditions to prevent us from meeting our cash requirements. These sources of liquidity may be affected by events described in our risk factors, as further discussed in Part I, Item 1.A., Risk Factors, in this Annual Report on Form 10-K for the fiscal 2015 year ended January 2, 2016.

As of January 2, 2016, we had approximately $381.2 million of cash and cash equivalents in major financial institutions, including approximately $40.8 million in financial institutions located outside of the U.S. We maintain 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, we utilize a policy of allocating cash deposits among major financial institutions that have been evaluated by us and third-party rating agencies.

BALANCE SHEET

Net accounts receivable at January 2, 2016 were $207.6 million compared to $184.6 million at January 3, 2015. The increase of $23.0 million, or 12.5%, as compared to January 3, 2015 primarily reflected higher sales in fiscal 2015 and higher non-trade receivables such as supply chain rebates and tenant allowances. Net accounts receivable at January 3, 2015 were $184.6 million compared to $193.6 million at December 28, 2013. The decrease of $9.0 million, or 4.7%, primarily reflected a decrease in other receivables primarily related to the 2014 collection of tenant improvement allowances for the new corporate headquarters facility.

Inventories at January 2, 2016 were $469.9 million compared to $444.8 million at January 3, 2015. The increase of $25.1 million, or 5.6%, as compared to January 3, 2015, primarily reflected business growth, partially offset by lower product costs. Inventories at January 3, 2015 were $444.8 million compared to $417.8 million at December 28, 2013. The increase of $27.0 million, or 6.5%, compared to December 28, 2013 primarily reflected an increase in inventory levels to support business growth and higher product costs as compared to the prior year.

CASH FLOW

Net cash provided by operating activities for fiscal 2015 was $308.0 million compared to net cash provided by operating activities of $282.4 million in fiscal 2014. The increase in operating cash flow primarily reflected an increase in net income and favorable timing of payments for accounts payable, partially offset by higher outstanding accounts receivable at the end of fiscal year 2015 as compared to at the end of fiscal 2014.

Net cash provided by operating activities for fiscal 2014 was $282.4 million compared to net cash provided by operating activities of $209.7 million in fiscal 2013. This increase in operating cash flow for fiscal 2014 primarily reflected an increase in net income and favorable changes in net working capital. The timing of payments and receipts in the normal course of business can impact our working capital.

Our capital expenditures were approximately $103.5 million in fiscal 2015 reflecting expenditures of $66.7 million for our U.S. and international retail store openings and remodelings, $19.5 million for information technology initiatives, $6.3 million for the Braselton, Georgia distribution facility, and $4.9 million for wholesale fixtures.

Our capital expenditures were approximately $103.5 million in fiscal 2014 compared to $182.5 million in fiscal 2013. Expenditures in fiscal 2014 primarily reflected expenditures of $56.5 million for our U.S. and international retail store openings and remodelings, $19.6 million for information technology initiatives, $18.2 million for the Braselton, Georgia distribution facility, and $8.5 million for the new corporate headquarters facility.

We plan to invest approximately $115 million in capital expenditures in fiscal 2016, primarily for U.S. and international retail store openings and remodelings, and information technology initiatives.

Net cash used in financing activities was $162.0 million in fiscal 2015 compared to $122.4 million in fiscal 2014. This increase in fiscal 2015 primarily reflected increases in repurchases of our common stock, increases in payments of withholding taxes for vested restricted shares issued under our employee stock-based compensation plan, and increases in the payment of cash dividends. There was little net impact related to the activities with our revolving credit facility, which involved two cash transactions during fiscal 2015: first, in the first quarter in fiscal 2015, we replaced $20.0 million of outstanding borrowings with CAD $25.5 million of borrowings, which approximated $20.3 million and second, in the third quarter of fiscal 2015, we amended and extended our revolving credit agreement and because of a change in the lead administrative agent and certain changes in commitment amounts among the lenders in the syndication, the amendment led to the repayment and simultaneous re-borrowing of the then-outstanding balance on the revolving credit agreement of approximately $185.2 million.

Net cash used in financing activities was $122.4 million in fiscal 2014 compared to $84.7 million in fiscal 2013. This increase in fiscal 2014 was due primarily to higher cash dividends and repurchases of our common stock in excess of proceeds from issuance of senior notes.

AMENDED AND RESTATED CREDIT FACILITY

On September 16, 2015, we and a syndicate of lenders amended and restated our secured revolving credit facility (the “amended revolving credit facility”) to, among other things: (i) refinance amounts outstanding on our existing credit facility in order to achieve better pricing terms and (ii) provide additional liquidity to be used for our ongoing working capital and for other general corporate purposes. The aggregate principal amount of the amended credit facility was increased from $375 million to $500 million to provide for (i) a $400 million U.S. dollar revolving facility (including a $175 million sub-limit for letters of credit and a swing line sub-limit of $50 million) and (ii) a $100 million multicurrency revolving facility (including a $40 million sub-limit for letters of credit and a swing line sub-limit of $15 million), available for borrowings denominated in U.S. dollars, Canadian dollars, Euros, Pounds Sterling, or other currencies agreed to by the applicable lenders. In connection with the amendment and restatement, we incurred approximately $1.7 million in debt issuance costs which, together with the certain existing unamortized debt issuance costs, is being amortized over the remaining term of the amended facility (five years). Our amended revolving credit facility matures September 16, 2020.

The interest rate margins applicable to our amended revolving credit facility were, as of the date here of, 1.375% for LIBOR-rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 1.125% to 1.875%) and 0.375% for base-rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 0.125% to 0.875%).

Our amended revolving credit facility also provides for incremental facilities in an aggregate amount not to exceed $250 million, either in the form of a commitment increase under the existing credit facility or the incurrence of one or more tranches of term loans (with the aggregate U.S. dollar amount available to us not to exceed $200 million and the aggregate multicurrency amount available not to exceed $50 million).

As of January 2, 2016, we had approximately $184.4 million in outstanding borrowings under our amended revolving credit facility, exclusive of $7.7 million of outstanding letters of credit. As of January 2, 2016, there was approximately $307.9 million available for future borrowings.

As of January 2, 2016, U.S. dollar borrowings outstanding under the amended revolving credit facility accrued interest at a LIBOR rate plus the applicable base rate, which was 1.72% on that date, and Canadian borrowings accrued interest at a CDOR (Canadian Dollar Offered Rate) rate plus the applicable base rate, which was 2.23% on that date.

Covenants

Subject to certain customary exceptions, the amended revolving credit facility contains covenants that restrict The William Carter Company's ("TWCC") and certain of its subsidiaries' 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.

The amended revolving credit facility also contains affirmative financial covenants. Specifically, we will not (i) permit at the end of any four consecutive fiscal quarters the Lease Adjusted Leverage Ratio (defined as, with certain adjustments, the ratio of the Company's consolidated indebtedness plus six times rent expense, as defined, to consolidated net income before interest, taxes, depreciation, amortization, and rent expense ("EBITDAR")) to exceed 4.00:1.00 (provided, however, that if any "Material Acquisition" occurs and the Lease Adjusted Leverage Ratio on a pro forma basis giving effect to the consummation of the Material Acquisition is less than 4.00:1.00, then the maximum Lease Adjusted Leverage Ratio may be increased to 4.50:1.00 for the fiscal quarter in which such Material Acquisition is consummated and the three fiscal quarters immediately following the fiscal quarter in which such Material Acquisition occurs) or (ii) permit at the end of any four consecutive fiscal quarters the Consolidated Fixed Charge Coverage Ratio (defined as, with certain adjustments, the ratio of consolidated EBITDAR to consolidated fixed charges (defined as interest plus rent expense)), for any such period to be less than 2.25:1.00 (provided, however, that if any Material Acquisition occurs and the Consolidated Fixed Charge Coverage Ratio on a pro forma basis giving effect to the consummation of the Material Acquisition is at least 2.25:1.00, then the minimum Consolidated Fixed Charge Coverage Ratio may be decreased to 2.00:1.00 for the fiscal quarter in which such Material Acquisition is consummated and the three fiscal quarters immediately following the fiscal quarter in which such Material Acquisition occurs). As of January 2, 2016, we were in compliance with our financial debt covenants.

SENIOR NOTES

On August 12, 2013, our 100% owned subsidiary, TWCC issued $400 million principal amount of senior notes at par, bearing interest at a rate of 5.25% per annum, and maturing on August 15, 2021, all of which were outstanding as of January 2, 2016. TWCC received net proceeds from the offering of the senior notes of approximately $394.2 million, after deducting bank fees. Approximately $7.0 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 subsidiaries of TWCC.

At any time prior to August 15, 2017, TWCC may redeem all or part of the senior notes at 100% of the principal amount redeemed plus an applicable premium and accrued and unpaid interest. On and after August 15, 2017, 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 applicable where the redemption occurs during the twelve-month period beginning on August 15 of each of the years indicated is as follows:

Year	Percentage
2017	102.63%
2018	101.31%
2019 and thereafter	100.00%

In addition, until August 15, 2016, we may, at our option, redeem up to 35% of the aggregate principal amount of the senior notes at a redemption price equal to 105.25% of the aggregate principal amount, plus accrued and unpaid interest, subject to certain terms, with the proceeds of certain equity offerings.

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. In addition, if we or any of our restricted subsidiaries engages in certain asset sales, under certain circumstances we will be required to use the net proceeds to make an offer to purchase the senior notes at 100% of their principal amount.

The indenture governing the senior notes includes a number of covenants, that, among other things and subject to certain exceptions, restrict TWCC's ability to: (i) incur, assume or guarantee additional indebtedness; (ii) issue disqualified stock and preferred stock; (iii) pay dividends, among other things, or make distributions or other restricted payments; (iv) prepay, redeem or repurchase certain debt; (v) make loans and investments (including joint ventures); (vi) incur liens; (vii) create restrictions on the payment of dividends or other amounts from restricted subsidiaries that are not guarantors of the notes; (viii) sell or otherwise dispose of assets, including capital stock of subsidiaries; (ix) consolidate or merge with or into, or sell substantially all of TWCC's assets to, another person; (x) designate subsidiaries as unrestricted subsidiaries; and (xi) enter into transactions with affiliates. Additionally, the 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% in principal amount of the then total outstanding senior notes to declare all amounts owning under the notes to be due and payable. Carter's, Inc. is not subject to these covenants.

During June 2014, TWCC completed the registration of the exchange offer for the senior notes that was required under the terms of such notes.

BONNIE TOGS ACQUISITION

On June 30, 2011, we purchased Bonnie Togs in Canada for total consideration of up to CAD $95 million, of which $61.2 million was paid in cash at closing and the balance to be paid contingent upon achieving certain earnings targets. In fiscal 2014, we paid approximately $8.9 million after achieving interim earnings targets. In fiscal 2015, we made a final contingent consideration payment of approximately $8.6 million of which approximately $7.6 million was reported in the our consolidated statement of cash flows as a financing use of cash and the remaining portion, which represented a contingency adjustment, was reported as an operating use of cash. At January 2, 2016, we had no remaining contingent consideration liability related to the Bonnie Togs acquisition.

FACILITY CLOSURES

In 2013 and 2014, the Company consolidated its Shelton, Connecticut and Atlanta, Georgia offices, as well as certain functions from its other offices, into a new headquarters facility in Atlanta, Georgia. We have completed our consolidation efforts and the remaining balance in the accrual as of January 2, 2016 was approximately $2.2 million, consisting primarily of costs related to a remaining lease liability. We do not expect to incur any additional costs related to our Atlanta and Shelton office consolidations.

In the fourth quarter of 2013, we made the decision to exit retail operations in Japan based on revised forecasts which did not meet our investment objectives. We recorded approximately $1.5 million in closing related-costs for fiscal 2014 and $3.0 million in fiscal 2013, primarily related to severance, accelerated depreciation, and other closing costs such as lease termination costs. During fiscal 2015, we did not incur any additional costs related to the exit of retail operations in Japan, and we do not expect to incur any additional related costs in future periods.

SHARE REPURCHASES

In the second quarter of fiscal 2013, our Board of Directors authorized the repurchase of our common shares in an amount up to $300 million, inclusive of amounts remaining under previous authorizations. In the third quarter of 2013, our Board of Directors authorized entry into two fixed-dollar accelerated stock repurchase ("ASR") agreements totaling $400 million.

The ASR agreements were settled in January 2014. As of the date of settlement, the Company had received a total of approximately 5.6 million shares. All shares received under the ASR agreements were retired upon receipt.

During the fiscal year ended January 3, 2015, we purchased, in open market transactions, and retired 1,111,899 shares of our common stock with an average share price of $73.84 for an aggregate cost of approximately $82.1 million.

During the fiscal year ended January 2, 2016, we purchased, in open market transactions, and retired 1,154,288 shares of our common stock with an average share price of $95.55 for an aggregate cost of $110.3 million.

The total remaining capacity under the repurchase authorizations as of January 2, 2016, was approximately $74.8 million.

On February 24, 2016, our Board of Directors authorized a new $500 million share repurchase program. The new share repurchase authorization permits us to repurchase shares of our common stock up to $500 million, in addition to the approximate $74.8 million remaining at January 2, 2016 under previous authorizations described above.

Future share repurchases may be made in the open market or in privately negotiated transactions, with the level and timing of activity being at management's discretion depending on market conditions, share price, other investment priorities, and other factors. The share repurchase authorizations have no expiration dates.

DIVIDENDS

Our Board of Directors authorized quarterly cash dividends of $0.22 per share in each quarter of fiscal 2015. The dividends were paid during the fiscal quarter in which they were declared.

On February 24, 2016, our Board of Directors authorized a quarterly cash dividend payment of $0.33 per common share, payable on March 25, 2016 to shareholders of record at the close of business on March 11, 2016.

Future declarations of quarterly dividends and the establishment of future record and payment dates are at the discretion of our Board of Directors, and are based on a number of factors, including our future financial performance and other investment priorities.

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

COMMITMENTS

The following table summarizes as of January 2, 2016, the maturity or expiration dates of mandatory contractual obligations and commitments for the following fiscal years:

(dollars in thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Long-term debt (a)	$ —	$ —	$ —	$ —	$186,000	$400,000	$ 586,000
Interest on debt (b)	24,266	24,266	24,266	24,266	23,450	35,000	155,514
Operating leases	141,707	136,104	127,376	115,097	104,317	369,410	994,011
Other	392	392	365	231	231	673	2,284
Total financial obligations	166,365	160,762	152,007	139,594	313,998	805,083	1,737,809
Letters of credit	7,700	—	—	—	—	—	7,700
Total financial obligations and commitments (c) (d)	$174,065	$160,762	$152,007	$139,594	$313,998	$805,083	$1,745,509

(a) Does not reflect potential currency impacts for debt repayable in Canadian dollars.

(b) Reflects: 1) estimated variable rate interest on obligations outstanding on our secured revolving credit facility as of January 2, 2016 using an interest rate of 1.72% for U.S. dollar borrowings and an interest rate of 2.23% for Canadian borrowings and 2) a fixed interest rate of 5.25% for the senior notes.

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

(d) The table above excludes purchase obligations. Our estimate as of January 2, 2016 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 $300 and $400 million.

(e) 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 2, 2016 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 Note 10, Employee Benefit Plans, to the accompanying audited consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K.

OFF-BALANCE SHEET OBLIGATIONS

We do not maintain off-balance sheet arrangements, transaction, obligations, or other relationships with unconsolidated entities except for those that are made in the normal course of our business and included in our Commitments table presented above.

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 the foreseeable future, although no assurance can be given in this regard.

EFFECTS OF INFLATION AND DEFLATION

We do not believe that inflation has had a significant effect on our net sales or our profitability. Substantial increases in cost, however, could have a significant impact on our business and the industry in the future. Additionally, while deflation could positively impact our merchandise costs, it could have an adverse effect on our average unit retail price, resulting in lower sales and profitability.

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 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 audited 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

We recognize wholesale and eCommerce revenue after shipment of products to customers, when title passes, when all risks and rewards of ownership have transferred, the sales price is fixed or determinable, and collectibility is reasonably assured. In certain cases, in which we retain the risk of loss during shipment, revenue recognition does not occur until the goods have reached the specified customer. In the normal course of business, we grant certain accommodations and allowances to our wholesale customers to assist these customers with inventory clearance or promotions. Such amounts are reflected as a reduction of net sales and are recorded based upon agreements with customers, historical trends, and annual forecasts. Retail store revenues are recognized at the point of sale. We reduce revenue for estimated customer returns and deductions. We also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make payments and for other estimated customer deductions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their 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 we believe it is probable the receivable will not be recovered.

We record cooperative advertising arrangements with major wholesale customers at fair value. Such fair value is determined based upon, among other factors, comparable market analysis for similar advertisements. We have included the fair value of these arrangements as a component of selling, general, and administrative expenses on the accompanying 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.

INVENTORY

We provide reserves for slow-moving inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than we project, additional write-downs may be required.

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. We perform impairment tests of goodwill at the reporting unit level. 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 both 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”).

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 it is determined that it is “more likely than not” that the fair value of the reporting unit is less than its carrying value, then the two-step goodwill impairment test using quantitative assessments is required to be performed.

If it is determined that it is “not likely” that the fair value of the reporting unit is less than its carrying value, then no further testing is required and the relevant qualitative factors supporting the strength in fair value are documented.

Under the quantitative assessment for goodwill, the first step is to compare the fair value of a reporting unit to its carrying value, including goodwill. We use discounted cash flow models to determine the fair value of a reporting unit. The assumptions used in these models are consistent with those we believe hypothetical marketplace participants would use. If the fair value of a reporting unit is less than its carrying value, the second step of the impairment test must be performed in order to determine the impairment loss, if any. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit’s goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the goodwill.

A tradename is considered impaired if the estimated fair value of the tradename is less than the carrying amount. 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 future cash flows and selecting appropriate discount and royalty rates.

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 assessment, performed as of January 2, 2016, there were no impairments in the values of goodwill or indefinite-lived tradename assets and no reporting units were at risk for impairment.

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 advisors 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, but because of the subjectivity involved and the unpredictable nature of the subject matter at issue, our assessment may prove ultimately to be incorrect, which could materially impact our consolidated financial statements.

ACCOUNTING FOR INCOME TAXES

As part of the process of preparing the accompanying audited 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 determine whether it is "more likely than not" that a tax position will be sustained upon the examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. For those income tax positions where it is not "more likely than not" that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest and penalties are also recognized.

We also assess permanent and temporary differences resulting from differing bases 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.

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 foreign currency gain or loss 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 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 Canadian dollar, our Canadian subsidiary may use foreign currency forward contracts to hedge purchases that are made in U.S. dollars, primarily for inventory purchases. As part of this hedging strategy, we use foreign currency forward exchange contracts that have maturities of less than 12 months to provide continuing coverage throughout the hedging period. As currently designed, these contracts are not designated for hedge accounting treatment, and therefore changes in the fair value of these contracts are 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 open contracts, as well as any realized gains and losses on contracts settled during the reporting period. Fair values are calculated by using readily observable market inputs (market-quoted currency exchange rates in effect between U.S. and Canadian dollars), classified as Level 2 within the fair value hierarchy.

EMPLOYEE BENEFIT PLANS

We sponsor a defined contribution (401(k)) plan, 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 applicable mortality tables were revised in 2014 and reflected increased life expectancies for most all demographics. 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 unrecognized gains and losses. Unrecognized 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 estimated service life of the remaining plan participants.

Any future obligation under our pension plan not funded from investment returns on plan assets will 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. See the employee benefit plans footnote to our accompanying audited consolidated financial statements for further details on rates and assumptions.

STOCK-BASED COMPENSATION ARRANGEMENTS

We account for the cost resulting from stock-based compensation arrangements at grant date fair value, utilizing 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 its probability assessment.

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 of future currency fluctuations on net income (loss) in future years.

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 Canadian subsidiary records Canadian denominated sales which are then translated into U.S. dollars using weighted-average exchange rates. The changes in foreign currency exchange rates in fiscal 2015 as compared to fiscal 2014 negatively impacted international segment net sales in fiscal 2014 by $35.1 million, primarily due to the devaluation of the Canadian dollar relative to the U.S. dollar.

Fluctuations in exchange rates, primarily between the U.S. dollar and the Canadian dollar, may affect our results of operations, financial position, and cash flows. Transactions by our Canadian subsidiary may be denominated in a currency other than the entity's functional currency, which is the Canadian dollar. Foreign currency transaction gains and losses also include the impact of noncurrent intercompany loans with foreign subsidiaries that are marked to market. In our statement of operations, these gains and losses are recorded within other expense, net.

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 Canadian dollar, our Canadian subsidiary may use foreign currency forward contracts to hedge purchases that are made in U.S. dollars, primarily for inventory purchases. As part of this hedging strategy, we use foreign currency forward exchange contracts that have maturities of less than 12 months to provide continuing coverage throughout the hedging period.

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. Weighted-average variable rate borrowings for the fiscal year ended January 2, 2016 were $185.9 million. An increase or decrease of 1% in the effective interest rate on that amount would have increased or decreased our annual pretax interest cost for fiscal 2015 by approximately $1.9 million.

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.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Carter's, Inc. and its subsidiaries at January 2nd, 2016 and January 3rd, 2015, and the results of their operations and their cash flows for each of the three years in the period ended January 2nd, 2016 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 2nd, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these 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 these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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.

/s/ PricewaterhouseCoopers LLP

Atlanta, Georgia
February 25, 2016

CARTER'S, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except for share data)

	January 2, 2016	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 381,209	$ 340,638
Accounts receivable, net	207,570	184,563
Finished goods inventories	469,934	444,844
Prepaid expenses and other current assets	38,672	34,788
Deferred income taxes	34,080	36,625
Total current assets	1,131,465	1,041,458
Property, plant, and equipment, net	371,704	333,097
Tradenames and other intangible assets, net	310,848	317,297
Goodwill	174,874	181,975
Deferred debt issuance costs, net	6,813	6,677
Other assets	13,409	12,592
Total assets	$2,009,113	$1,893,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 157,648	$ 150,243
Other current liabilities	105,070	97,728
Total current liabilities	262,718	247,971
Long-term debt	584,431	586,000
Deferred income taxes	128,838	121,536
Other long-term liabilities	158,075	150,905
Total liabilities	1,134,062	1,106,412
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at January 2, 2016 and January 3, 2015	—	—
Common stock, voting; par value $.01 per share; 150,000,000 shares authorized; 51,764,309 and 52,712,193 shares issued and outstanding at January 2, 2016 and January 3, 2015, respectively	518	527
Additional paid-in capital	—	—
Accumulated other comprehensive loss	(36,367)	(23,037)
Retained earnings	910,900	809,194
Total stockholders' equity	875,051	786,684
Total liabilities and stockholders' equity	$2,009,113	$1,893,096

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 years ended		
	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)	December 28, 2013 (52 weeks)
Net sales	$3,013,879	$2,893,868	$2,638,711
Cost of goods sold	1,755,855	1,709,428	1,543,332
Gross profit	1,258,024	1,184,440	1,095,379
Selling, general, and administrative expenses	909,233	890,251	868,480
Royalty income	(44,066)	(39,156)	(37,252)
Operating income	392,857	333,345	264,151
Interest expense	27,031	27,653	13,437
Interest income	(500)	(403)	(669)
Other (income) expense, net	(1,862)	3,189	1,918
Income before income taxes	368,188	302,906	249,465
Provision for income taxes	130,366	108,236	89,058
Net income	$ 237,822	$ 194,670	$ 160,407
Basic net income per common share	$ 4.55	$ 3.65	$ 2.78
Diluted net income per common share	$ 4.50	$ 3.62	$ 2.75
Dividend declared and paid per common share	$ 0.88	$ 0.76	$ 0.48

See accompanying notes to the consolidated financial statements.

CARTER'S, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	For the fiscal years ended		
	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)	December 28, 2013 (52 weeks)
Net income	$ 237,822	$ 194,670	$ 160,407
Other comprehensive income (loss):			
Unrealized gain (loss) on OshKosh defined benefit plan, net of tax of ($470), $2,920, ($3,660) for the fiscal years 2015, 2014, and 2013, respectively	803	(4,963)	6,238
Unrealized gain (loss) on Carter's post-retirement benefit obligation, net of (tax) or tax benefit of ($30), $91, ($210) for fiscal years 2015, 2014, and 2013, respectively	56	(147)	371
Foreign currency translation adjustments	(14,189)	(7,845)	(5,486)
Total other comprehensive (loss) income	(13,330)	(12,955)	1,123
Comprehensive income	$ 224,492	$ 181,715	$ 161,530

See accompanying notes to the consolidated financial statements.

CARTER'S, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the fiscal years ended		
	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)	December 28, 2013 (52 weeks)
Cash flows from operating activities:			
Net income	$ 237,822	$ 194,670	$ 160,407
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	61,982	58,487	54,915
Amortization of tradenames	6,417	16,437	13,588
Accretion of contingent consideration	809	1,348	2,825
Amortization of debt issuance costs	1,603	1,533	1,049
Non-cash stock-based compensation expense	17,029	17,598	16,040
Unrealized foreign currency exchange loss, net	4	2,378	—
Income tax benefit from stock-based compensation	(8,839)	(4,700)	(11,040)
Loss on disposal of property, plant, and equipment	870	1,157	272
Deferred income taxes	8,657	3,911	596
Effect of changes in operating assets and liabilities:			
Accounts receivable	(23,837)	8,405	(26,064)
Inventories	(34,352)	(32,151)	(70,691)
Prepaid expenses and other assets	(3,496)	(2,719)	(18,716)
Accounts payable and other liabilities	43,318	16,043	86,515
Net cash provided by operating activities	307,987	282,397	209,696
Cash flows from investing activities:			
Capital expenditures	(103,497)	(103,453)	(182,525)
Acquisition of tradenames	—	(3,550)	(38,007)
Proceeds from sale of property, plant, and equipment	72	2,271	—
Net cash used in investing activities	(103,425)	(104,732)	(220,532)
Cash flows from financing activities:			
Proceeds from senior notes	—	—	400,000
Payments of debt issuance costs	(1,628)	(177)	(6,989)
Borrowings under secured revolving credit facility	205,586	—	—
Payments on secured revolving credit facility	(205,237)	—	—
Repurchase of common stock	(110,290)	(82,099)	(454,133)
Payment of contingent consideration	(7,572)	(8,901)	(14,721)
Dividends paid	(46,028)	(40,477)	(27,715)
Income tax benefit from stock-based compensation	8,839	4,700	11,040
Withholdings of taxes from vesting of restricted stock	(12,651)	(4,548)	(5,052)
Proceeds from exercise of stock options	6,976	9,064	12,912
Net cash used in financing activities	(162,005)	(122,438)	(84,658)
Net effect of exchange rate changes on cash	(1,986)	(1,135)	(196)
Net increase (decrease) in cash and cash equivalents	40,571	54,092	(95,690)
Cash and cash equivalents, beginning of fiscal year	340,638	286,546	382,236
Cash and cash equivalents, end of fiscal year	$ 381,209	$ 340,638	$ 286,546

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
Balance at December 29, 2012	**59,126,639**	**$ 591**	**$ 250,276**	**$ (11,205)**	**$ 745,817**	**$ 985,479**
Income tax benefit from stock-based compensation	—	—	11,040	—	—	11,040
Exercise of stock options	669,834	7	12,905	—	—	12,912
Withholdings from vesting of restricted stock	(84,766)	(1)	(5,051)	—	—	(5,052)
Restricted stock activity	240,899	2	(2)	—	—	—
Stock-based compensation expense	—	—	15,572	—	—	15,572
Issuance of common stock	16,173	—	1,080	—	—	1,080
Repurchase of common stock	(5,426,900)	(54)	(281,488)	—	(172,591)	(454,133)
Cash dividends declared and paid	—	—	—	—	(27,697)	(27,697)
Comprehensive income	—	—	—	1,123	160,407	161,530
Balance at December 28, 2013	**54,541,879**	**$ 545**	**$ 4,332**	**$ (10,082)**	**$ 705,936**	**$ 700,731**
Income tax benefit from stock-based compensation	—	—	4,700	—	—	4,700
Exercise of stock options	287,511	3	9,061	—	—	9,064
Withholdings from vesting of restricted stock	(66,352)	(1)	(4,547)	—	—	(4,548)
Restricted stock activity	70,349	1	(1)	—	—	—
Stock-based compensation expense	—	—	16,517	—	—	16,517
Issuance of common stock	14,859	—	1,081	—	—	1,081
Repurchases of common stock	(2,136,053)	(21)	(31,143)	—	(50,935)	(82,099)
Cash dividends declared and paid	—	—	—	—	(40,477)	(40,477)
Comprehensive income	—	—	—	(12,955)	194,670	181,715
Balance at January 3, 2015	**52,712,193**	**$ 527**	**$ —**	**$ (23,037)**	**$ 809,194**	**$ 786,684**
Income tax benefit from stock-based compensation	—	—	8,839	—	—	8,839
Exercise of stock options	214,420	2	6,974	—	—	6,976
Withholdings from vesting of restricted stock	(147,339)	(1)	(12,650)	—	—	(12,651)
Restricted stock activity	128,390	1	(1)	—	—	—
Stock-based compensation expense	—	—	15,934	—	—	15,934
Issuance of common stock	10,933	—	1,095	—	—	1,095
Repurchases of common stock	(1,154,288)	(11)	(20,191)	—	(90,088)	(110,290)
Cash dividends declared and paid	—	—	—	—	(46,028)	(46,028)
Comprehensive income	—	—	—	(13,330)	237,822	224,492
Balance at January 2, 2016	**51,764,309**	**$ 518**	**$ —**	**$ (36,367)**	**$ 910,900**	**$ 875,051**

See accompanying notes to the consolidated financial statements.

NOTE 1—THE COMPANY

Carter's, Inc. and its wholly owned subsidiaries (collectively, the "Company," and its) design, source, and market branded childrenswear under the *Carter's*, *Child of Mine*, *Just One You*, *Precious Firsts*, *OshKosh*, and other brands. The Company's products are sourced through contractual arrangements with manufacturers worldwide for wholesale distribution to major domestic and international retailers and for the Company's own retail stores and websites that market its brand name merchandise and other licensed products manufactured by other companies. As of January 2, 2016, the Company operated 594 Carter's domestic stores, 241 OshKosh domestic stores, and 147 Canadian stores.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying audited 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 the last day of December, resulting in an additional week of results every five or six years. Fiscal 2015, which ended on January 2, 2016, contained 52 weeks. Fiscal 2014, which ended on January 3, 2015, contained 53 weeks. Fiscal 2013, which ended on December 28, 2013, contained 52 weeks.

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. 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 audited consolidated balance sheet.

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 intercompany loans with foreign subsidiaries that are of a short-term investment nature. Foreign currency transaction gains and losses are recognized in earnings, as a separate component of other expense, net, within the audited consolidated statements of operations.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Contracts

As part of the Company's overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily between the U.S. dollar and Canadian dollar, the Company's Canadian subsidiary may use foreign currency forward contracts to hedge purchases that are made in U.S. dollars, primarily for inventory purchases. As part of this hedging strategy, the Company uses foreign currency forward exchange contracts that have maturities of less than 12 months to provide continuing coverage throughout the hedging period. As currently designed, the Company's contracts are not designated for hedge accounting treatment, and therefore changes in the fair value of these contracts are recorded in other (income) expense, net in the Company's consolidated statement of operations. Such foreign currency gains and losses include the mark-to-market fair value adjustments at the end of each reporting period related to open contracts, as well as any realized gains and losses on contracts settled during the reporting period. The fair values of 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 the 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.

Concentration of cash deposits risk

As of January 2, 2016, the Company had approximately $381.2 million of cash and cash equivalents in major financial institutions, including approximately $40.8 million in financial institutions located outside of the U.S. 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.

ACCOUNTS RECEIVABLE

The components of accounts receivable, net, as of January 2, 2016 and January 3, 2015 are as follows:

(dollars in thousands)	January 2, 2016	January 3, 2015
Trade receivables	$ 185,046	$ 173,962
Royalties receivable	11,164	9,978
Tenant allowances and other receivables	20,303	12,831
Total gross receivables	$ 216,513	$ 196,771
Less:		
Allowance for doubtful accounts	(8,543)	(11,808)
Sales returns reserve	(400)	(400)
Total reserves	(8,943)	(12,208)
Accounts receivable, net	$ 207,570	$ 184,563

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of credit risk

In each of fiscal 2015, 2014, and 2013, no one customer accounted for 10% or more of the Company's consolidated net sales.

At January 2, 2016, five customers each had individual receivable balances in excess of 10% of gross accounts receivable, and the total receivable balances due from these five customers in the aggregate equaled approximately 60% of total gross accounts receivable outstanding. At January 3, 2015, five customers each had individual receivable balances in excess of 10% of gross accounts receivable, and the total receivable balances due from these five customers in the aggregate equaled approximately 59% of total gross accounts receivable outstanding.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make payments and other estimated deductions. 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. The Company also records reserves for potential returns based on historical experience.

INVENTORIES

Inventories, which consist primarily of finished goods, are stated at the lower of cost (first-in, first-out basis for wholesale inventory and average cost for retail inventories) or market. The Company adjusts for slow-moving inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. The Company also adjusts its inventory to reflect estimated shrinkage based on historical trends.

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 profit 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, and computer software from 3 to 7 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.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's goodwill balance is comprised of amounts related to the acquisition of Carter's, Inc. by a predecessor company and the acquisition of Bonnie Togs. The goodwill balances have indefinite useful lives and are not deductible for income tax purposes. The Company's other intangible assets are comprised of tradenames

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and non-compete agreements. The tradenames include *Carter's*, *OshKosh, Carter's Watch the Wear, H.W. Carter & Sons,* and the *Carter's* tradename in the country of Chile. The *Carter's* and *OshKosh* tradenames have indefinite useful lives. The *Carter's Watch the Wear* and *H.W. Carter & Sons* have definite lives and are being amortized on an accelerated basis over three years. The *Carter's* tradename in Chile has a definite life and is being amortized over a period of 20 years.

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 future cash flows, discount rates, and, in the case of tradenames, royalty rates. Based upon the Company's most recent assessment, performed as of January 2, 2016, there were no impairments in the values of goodwill or indefinite-lived tradename assets and no reporting units were at risk of an impairment.

Goodwill

The Company performs impairment tests of its goodwill at the reporting unit level. Both qualitative and quantitative methods may be 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 the Company performs the two-step goodwill impairment test as required. If it is determined that it is "not likely" 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.

The first step of a quantitative assessment is to compare the fair value of the reporting unit to its carrying value, including goodwill. The Company uses a discounted cash flow model to determine the fair value, using assumptions consistent with those of hypothetical marketplace participants. If the fair value of a reporting unit is less than its carrying value, the second step of the impairment test must be performed. The second step compares the implied fair value of the reporting unit goodwill with the carrying value of that goodwill, in order to determine the amount of the impairment loss and charge to the consolidated statement of operations.

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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF OTHER LONG-LIVED ASSETS

The Company reviews other long-lived assets, including 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 in the business 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.

DEFERRED DEBT ISSUANCE COSTS

Debt issuance costs associated with the Company's secured revolving credit facility and senior notes are deferred and amortized to interest expense over the term of the related debt using the effective interest method.

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, unsettled foreign currency forward contracts, and contingent consideration liability for acquisitions (if any) at fair value, as disclosed in the accompanying notes to the consolidated financial statements. 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 7, *Long-Term Debt*, to the accompanying 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

Revenues consist of sales to customers, net of returns, accommodations, allowances, deductions, and cooperative advertising. The Company considers revenue realized or realizable and earned when the product has been shipped, when title passes, when all risks and rewards of ownership have transferred, the sales price is fixed or determinable, and collectibility is reasonably assured. In certain cases, in which the Company retains the risk of loss during shipment, revenue recognition does not occur until the goods have reached the specified customer.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the normal course of business, the Company grants certain accommodations and allowances to its wholesale customers in order to assist these customers with inventory clearance and promotions. Such amounts are reflected as a reduction of net sales and are recorded based on agreements with customers, historical trends, and annual forecasts.

The Company records its 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 $3.9 million for each of the fiscal years 2015, 2014, and 2013, as a component of selling, general, and administrative expenses on the accompanying 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.

Retail store revenues are recognized at the point of sale. The Company reduces revenue for estimated customer returns and deductions.

ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS

Shipping and handling costs include related labor costs, third-party shipping costs, shipping supplies, and certain distribution overhead. Such costs are absorbed by the Company and are included in selling, general, and administrative expenses. These costs amounted to approximately $67.2 million, $72.1 million, and $59.1 million for fiscal 2015, 2014, and 2013, respectively.

With respect to the freight component of the Company's shipping and handling costs, certain customers arrange for shipping and pay the related freight costs directly to third parties. However, in the event that the Company arranges and pays the freight for these customers and bills them for this service, such amounts billed are included in revenue and the related cost is charged to cost of goods sold. In addition, shipping and handling costs billed to the Company's eCommerce customers are included in revenue and the related cost is charged to cost of goods sold. Amounts billed to customers for such costs were approximately $11.0 million, $12.3 million, and $12.1 million for fiscal years 2015, 2014, and 2013, respectively.

INCOME FROM ROYALTIES AND LICENSE FEES

The Company licenses the *Carter's, Just One You, Precious Firsts, Child of Mine, OshKosh B'gosh*, *OshKosh*, and *Genuine Kids from OshKosh* trademarks to other companies for use on baby and young children's products, including bedding, outerwear, sleepwear, shoes, underwear, socks, room décor, toys, stationery, hair accessories, furniture, and related products. These royalties are recorded as earned, based upon the sales of licensed products by licensees and reported as royalty income in the statements of operations.

ADVERTISING EXPENSES

Costs associated with the production of advertising, such as writing, copy, printing, and other costs, are expensed as incurred. Costs associated with communicating advertising that has been produced, such as magazine costs and website banners, are expensed when the advertising event takes place.

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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 audited 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. The Company reassesses the probability of vesting at each reporting period and prospectively 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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAXES

The accompanying consolidated financial statements reflect current and deferred tax provisions. 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 bases of assets and liabilities using presently enacted tax rates. 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. The Company determines whether it is "more likely than not" that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. For those tax positions where it is not "more likely than not" that a tax benefit will be sustained, no tax benefit is 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 $25.1 million, $26.1 million, and $3.8 million for fiscal years 2015, 2014, and 2013, respectively. Income taxes paid in cash approximated $108.4 million, $95.8 million and $83.3 million for fiscal years 2015, 2014, and 2013, respectively.

Additions to property, plant and equipment of approximately $6.1 million, $2.0 million, and $17.8 million were excluded from capital expenditures on the Company's consolidated statements of cash flows for fiscal years 2015, 2014, and 2013, respectively, since these amounts were accrued and unpaid at the end of each respective fiscal year.

The Company's consolidated statement of cash flows shows the following sources and uses of financing cash flows related to the Company's revolving credit facility during fiscal 2015. In the first quarter, the Company replaced $20.0 million of outstanding borrowings under the then-existing amended revolving credit facility with CAD 25.5 million of borrowings, which approximated $20.3 million. Additionally, because of a change in the lead administrative agent and certain changes in commitment amounts among the lenders in the syndication, the third quarter amendment to the Company's secured revolving credit facility led to the repayment and simultaneous re-borrowing of the then-outstanding balance on the secured revolving credit agreement of approximately $185.2 million.

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.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OPEN MARKET REPURCHASES OF COMMON STOCK

Shares of the Company’s common stock that are repurchased (“buy back”) by the Company through open market transactions are retired. Through the end of fiscal 2015, 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. The 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.

FACILITY CLOSURE AND OFFICE CONSOLIDATION

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, and adjusted for the effects of deferred items recognized under the lease and reduced by estimated sub-lease rental income. 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.

LEASES AND DEFERRED RENT

The Company enters into a significant number of lease transactions related to properties for its retail stores in addition to leases for offices, distribution facilities, and other uses. The lease agreements may contain provisions related to allowances for property improvements, rent escalation, and free rent periods. Substantially all of these leases are classified as operating leases for accounting purposes.

For property improvement allowances, the Company records a deferred lease credit on the consolidated balance sheet and amortizes the deferred lease credit as a reduction of rent expense over the terms of the applicable lease. For scheduled rent escalation clauses during the lease term, the Company records rent expense on a straight-line basis over the term of the lease. The difference between the rent expense and the amount payable under the lease is included within the Company’s liabilities on the consolidated balance sheet. The term of the lease over which the Company amortizes allowances and minimum rental expenses on a straight-line basis begins on the date of initial possession, which is generally when the Company enters the space and/or begins construction.

Where leases provide for contingent rents, which are generally determined as a percentage of gross sales, the Company records additional rent expense when management determines that achieving the specified level of revenue during the fiscal year is probable. Amounts accrued for contingent rent are included within the Company’s liabilities on the consolidated balance sheet.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue. The guidance is applicable to all contracts with customers regardless of industry-specific or transaction-specific fact patterns. Further, the guidance requires improved disclosures as well as additional disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The standard is effective for the Company beginning in the first quarter of fiscal 2018, including interim periods within that first fiscal year, and early adoption is now permitted for 2017. Upon becoming effective, the Company will apply the amendments in the updated standard either retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company is currently evaluating the impact of adopting this standard on its consolidated financial position, results of operations, and cash flows. Since the original issuance of ASU 2014-09, the FASB has issued several amendments to this guidance, and additional amendments are currently being considered by the FASB.

Presentation of Debt Issuance Costs for Term Debt

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). Upon adoption, ASU 2015-03 will require debt issuance costs associated with outstanding term debt to be presented in the balance sheet as a direct reduction in the carrying value of the associated debt liability, consistent with the current presentation of a debt discount. For fees paid to lenders to secure revolving lines of credit, such fees will continue to be presented as a deferred charge (asset) on the balance sheet, as clarified in August 2015 by the FASB's issuance of ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ("ASU 2015-15"). Under guidance prior to ASU 2015-03, all debt issuance costs, for both term debt and revolving lines of credit, are presented in the balance sheet as a deferred charge (asset). ASU 2015-03 is limited to the presentation of debt issuance costs and will not affect the recognition and measurement of debt issuance costs. Upon adoption, ASU 2015-03 and ASU 2015-15 must be applied on a retrospective basis. The Company adopted the provisions of ASU 2015-03 and ASU 2015-15 at the beginning of fiscal 2016. Since ASU 2015-03 and ASU 2015-15 involve balance sheet presentation only, their adoption will not have any impact on the Company's results of operations, financial condition, or cash flows.

Simplified Measurement Date for Defined Benefit Plan Assets and Obligations

In April 2015, the FASB issued ASU No. 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets* ("ASU 2015-04"). Upon adoption, ASU 2015-04 will allow employers with fiscal year ends that do not coincide with a calendar month end to make an accounting

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

policy election to measure defined benefit plan assets and obligations as of the end of the month closest to their fiscal year end (i.e., on an alternative measurement date). An employer that makes this election must consistently apply the practical expedient from year to year and to all of its defined benefit plans. The Company adopted the provisions of ASU 2015-04 at the beginning of fiscal 2016 and the Company does not expect the adoption to have a material impact on the Company's benefit plans or the Company's results of operations, financial condition, or cash flows.

Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* ("ASU 2015-05"). ASU 2015-05 provides new guidance for a customer's accounting for fees paid in a cloud computing arrangement. Previously, there was no specific U.S. GAAP guidance on accounting for such fees from the customer's perspective, and entities generally applied lease accounting guidance to acquired software licenses. Under ASU 2015-05, customers will apply the same criteria as vendors to determine whether a cloud computing arrangement contains a software license or is solely a service contract. More specifically, if a hosting arrangement includes a software license for internal use software, the software license will be capitalized and amortized over the life of the license, and a hosting arrangement that does not include software licenses will be accounted for as service contracts. For public entities, ASU 2015-05 is effective for annual periods, including interim periods, beginning after December 15, 2015. Early adoption is permitted. Entities will have the option of transitioning to the new guidance either retrospectively, or prospectively for all new transactions entered into or materially modified after the date of adoption. The Company prospectively adopted the provisions of ASU 2015-05 at the beginning of fiscal 2016, and the Company does not expect the adoption of ASU 2015-05 to have a material impact on the Company's results of operations, financial condition, or cash flows.

Simplified Subsequent Measurement of Inventory

In July 2015, the FASB issue ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). Upon adoption by an entity, ASU 2015-11 will simplify the subsequent measurement of inventory by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The new guidance applies only to inventories for which cost is determined by methods other than last-in-first-out (LIFO) and the retail inventory method. For inventory within the scope of ASU 2015-11, entities will be required to compare the cost of inventory to only one measure, its net realizable value, and not the three measures required by current guidance ("market," "subject to a floor," and a "ceiling"). When evidence exists that the net realizable value of inventory is less than its cost (due to damage, physical deterioration, obsolescence, changes in price levels or other causes), entities will recognize the difference as a loss in earnings in the period in which it occurs. ASU 2015-11 is effective for public entities for fiscal years beginning after December 15, 2016, and interim periods within the year of adoption. Early adoption is permitted. The Company expects to adopt the provisions of ASU 2015-11 at the beginning of fiscal 2017. At this time, the Company does not believe the adoption of ASU 2015-11 will have a material impact on its consolidated financial condition, results of operations, or cash flows.

Balance Sheet Classification of Deferred Taxes

On November 20, 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). Current GAAP requires the deferred taxes for each tax jurisdiction (or tax-paying component of a jurisdiction) to be presented as a net current asset or liability and net noncurrent asset or liability. This requires a jurisdiction-by-jurisdiction analysis based on the classification of the assets and liabilities to which the

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

underlying temporary differences relate based on the period in which the attribute is expected to be realized. Upon adoption of ASU 2015-17, all deferred tax assets and liabilities will be classified as noncurrent on an entity's balance sheet. As a result, each jurisdiction will have only one net noncurrent deferred tax asset or liability. ASU 2015-17 will not change the existing guidance that prohibits the offsetting of deferred tax liabilities of one jurisdiction against the deferred tax assets of another jurisdiction. ASU 2015-17 is effective for public entities in fiscal years beginning after December 15, 2016, including interim periods in the year of adoption. Early adoption is permitted, and adoption may be applied either prospectively or retrospectively. The Company plans to adopt ASU 2015-17 at the beginning of the first quarter of fiscal 2017. ASU 2015-17 will only involve classification of certain deferred tax assets and liabilities on the Company's consolidated balance sheet and will have no impact on the Company's results of operations or cash flows. The Company does not expect the adoption of ASU 2015-17 to be material to the Company's consolidated balance sheet.

NOTE 3—ACQUISITION OF BONNIE TOGS

On June 30, 2011, the Company purchased all of the outstanding shares of capital stock of Bonnie Togs for total consideration of up to CAD $95 million, of which USD $61.2 million was paid in cash at closing. The Company made payments of approximately USD $14.7 million and USD $8.9 million related to the contingent consideration liability based on the achievement of interim earnings targets through June 2013 and 2014, respectively. In fiscal 2015, the Company made a final payment under the contingent consideration obligation of approximately USD $8.6 million. Of this amount, approximately USD $7.6 million is reported in the Company's consolidated statement of cash flows as a financing activity and the remaining portion, which represented the contingency adjustment recognized in the second quarter of fiscal 2015, is reported as an operating activity.

The following table summarizes the changes in the contingent consideration liability related to the 2011 acquisition of Bonnie Togs during fiscal 2013, 2014, and 2015 (dollars in thousands):

Balance at December 29, 2012	$ 29,704
Payments made	(14,721)
Accretion expense	2,825
Foreign currency translation adjustment	(1,460)
Balance at December 28, 2013	16,348
Payments made	(8,901)
Accretion expense	1,348
Foreign currency translation adjustment	(1,084)
Balance at January 3, 2015	7,711
Payments made	(8,568)
Accretion expense	809
Foreign currency translation adjustment	(1,029)
Final contingent adjustment	1,077
Balance at January 2, 2016	$ —

NOTE 4—PROPERTY, PLANT, AND EQUIPMENT

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

(dollars in thousands)	January 2, 2016	January 3, 2015
Fixtures, equipment, computer hardware and software	$ 367,593	$ 325,852
Land, buildings, and improvements	260,809	220,995
Marketing fixtures	12,336	12,089
Construction in progress	21,602	19,172
	662,340	578,108
Accumulated depreciation and amortization	(290,636)	(245,011)
Total	$ 371,704	$ 333,097

Depreciation and amortization expense related to property, plant, and equipment was approximately $62.0 million, $58.5 million, and $54.7 million for fiscal years 2015, 2014, and 2013, respectively.

NOTE 5—GOODWILL AND OTHER INTANGIBLE ASSETS

Acquisition of Tradenames

In December 2014, the Company acquired the exclusive rights to the *Carter's* brands including trademark registrations in Chile. The Company acquired these rights in order to freely operate in Chile by offering products and service under the *Carter's* brand. The total consideration paid was approximately $3.6 million in cash and was accounted for as an asset acquisition. This tradename is being amortized over 20 years using a straight-line method.

In June 2013, the Company acquired worldwide rights to the *Carter's Watch the Wear* and *H.W. Carter & Sons* brands, including trademark registrations. The Company acquired these worldwide rights for defensive purposes to reduce brand confusion and facilitate expansion in certain key international markets. The total consideration paid was approximately $38.0 million in cash and was accounted for as an asset acquisition. These tradenames are being amortized over three years, using an accelerated amortization method.

NOTE 5—GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Balance Sheet Components

The Company's goodwill and other intangible assets were as follows:

(dollars in thousands)	Weighted-average useful life	January 2, 2016 Gross amount	January 2, 2016 Accumulated amortization	January 2, 2016 Net amount	January 3, 2015 Gross amount	January 3, 2015 Accumulated amortization	January 3, 2015 Net amount
Carter's goodwill (1)	Indefinite	$136,570	$ —	$136,570	$136,570	$ —	$136,570
Bonnie Togs goodwill (2)	Indefinite	38,304	—	38,304	45,405	—	45,405
Total goodwill		$174,874	$ —	$174,874	$181,975	$ —	$181,975
Carter's tradename	Indefinite	$220,233	$ —	$220,233	$220,233	$ —	$220,233
OshKosh tradename	Indefinite	85,500	—	85,500	85,500	—	85,500
Other tradenames (3)	2-20 years	41,992	36,877	5,115	42,073	30,541	11,532
Total tradenames		347,725	36,877	310,848	347,806	30,541	317,265
Non-compete agreements (2)	4 years	199	199	—	257	225	32
Total tradenames and other intangibles, net		$347,924	$37,076	$310,848	$348,063	$30,766	$317,297

(1) $45.9 million of which relates to the Carter's wholesale segment, $82.0 million of which relates to the Carter's retail segment, and $8.6 million of which relates to the international segment.
(2) Relates to the international segment. The change in the gross amount of goodwill and other intangible assets reflects foreign currency translation adjustments for the applicable periods.
(3) Relates to the acquisition of rights to the *Carter's* brand in Chile in December 2014 and the *Carter's Watch the Wear* and *H.W. Carter & Sons* brands worldwide in June 2013.

Amortization expense for intangible assets subject to amortization was approximately $6.4 million, $16.5 million, and $13.8 million for fiscal years 2015, 2014, and 2013, respectively. The estimated future amortization expense is approximately $1.9 million for fiscal 2016, $0.2 million for fiscal 2017, and $0.2 million for each fiscal year 2018 through 2020.

NOTE 6—ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated other comprehensive (loss) income is summarized as follows:

(dollars in thousands)	Pension liability adjustment	Post-retirement liability adjustment	Cumulative translation adjustment	Accumulated other comprehensive (loss) income
Balance at December 29, 2012	$ (10,263)	$ 1,124	$ (2,066)	$ (11,205)
Fiscal year 2013 change	6,238	371	(5,486)	1,123
Balance at December 28, 2013	(4,025)	1,495	(7,552)	(10,082)
Fiscal year 2014 change	(4,963)	(147)	(7,845)	(12,955)
Balance at January 3, 2015	(8,988)	1,348	(15,397)	(23,037)
Fiscal year 2015 change	803	56	(14,189)	(13,330)
Balance at January 2, 2016	$ (8,185)	$ 1,404	$ (29,586)	$ (36,367)

NOTE 6—ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (Continued)

As of January 2, 2016 and January 3, 2015, the cumulative pension liability adjustments were, net of tax effect, $4.8 million and $5.3 million, respectively. As of January 2, 2016 and January 3, 2015, the post-retirement liability adjustments were, net of tax effect, approximately $0.8 million for each period.

For the fiscal years ended January 2, 2016 and January 3, 2015, 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. See *Note 10, Employee Benefit Plans*, for additional details. Also, during the fiscal year ended January 3, 2015, approximately $0.1 million was reclassified from cumulative translation adjustment into other expense, net on the consolidated statement of operations as a result of the completion of the Company's exit from retail operations in Japan.

NOTE 7—LONG-TERM DEBT

Long-term debt consisted of the following:

(dollars in thousands)	January 2, 2016	January 3, 2015
Senior notes	$400,000	$400,000
Secured revolving credit facility (1)	184,431	186,000
Total long-term debt	$584,431	$586,000

(1) Reported balance that is payable in Canadian dollars is subject to currency exchange rate changes.

SENIOR NOTES

On August 12, 2013, the Company's 100% owned subsidiary, The William Carter Company ("TWCC") issued $400 million principal amount of senior notes (the "senior notes") at par, bearing interest at a rate of 5.25% per annum, and maturing on August 15, 2021, all of which were outstanding as of January 2, 2016. At issuance, TWCC received net proceeds from the offering of the senior notes of approximately $394.2 million, after deducting bank fees and other related fees. Approximately $7.0 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.

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

At any time prior to August 15, 2017, TWCC may redeem all or part of the senior notes at 100% of the principal amount redeemed plus an applicable premium and accrued and unpaid interest. On and after August 15, 2017, 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 applicable where the redemption occurs during the twelve-month period beginning on August 15 of each of the years indicated is as follows:

Year	Percentage
2017	102.63%
2018	101.31%
2019 and thereafter	100.00%

NOTE 7—LONG-TERM DEBT (Continued)

In addition, until August 15, 2016, TWCC may, at its option, redeem up to 35% of the aggregate principal amount of the senior notes at a redemption price equal to 105.25% of the aggregate principal amount, plus accrued and unpaid interest, subject to certain terms, with the proceeds of certain equity offerings.

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. In addition, if TWCC or any of its restricted subsidiaries engages in certain asset sales, under certain circumstances TWCC will be required to use the net proceeds to make an offer to purchase the senior notes at 100% of their principal amount.

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, assume or guarantee additional indebtedness; (b) issue disqualified stock and preferred stock; (c) pay dividends or make distributions or other restricted payments; (d) prepay, redeem or repurchase certain debt; (e) make loans and investments (including joint ventures); (f) incur liens; (g) create restrictions on the payment of dividends or other amounts from restricted subsidiaries that are not guarantors of the notes; (h) sell or otherwise dispose of assets, including capital stock of subsidiaries; (i) consolidate or merge with or into, or sell substantially all of TWCC's assets to, another person; (j) designate subsidiaries as unrestricted subsidiaries; and (k) enter into transactions with affiliates. Specific provisions restrict the ability of the Company's operating subsidiary, TWCC, from paying cash dividends to Carter's, Inc. in excess of $100.0 million plus an additional amount that builds based on 50% of our consolidated net income on a cumulative basis beginning with the third fiscal quarter of 2013 and subject to certain conditions, unless TWCC and its consolidated subsidiaries meet a leverage ratio requirement under the indenture, which could restrict Carter's, Inc. from paying cash dividends on our common stock. Additionally, the 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% in principal amount of the then total outstanding senior notes to declare all amounts owning under the notes to be due and payable. Carter's, Inc. is not subject to these covenants.

TWCC completed the required registered exchange offer during fiscal 2014.

SECURED REVOLVING CREDIT FACILITY

On October 15, 2010, the Company entered into a $375 million ($130 million sub-limit for letters of credit and a swing line sub-limit of $40 million) secured revolving credit facility with Bank of America as sole lead arranger and administrative agent, JP Morgan Chase Bank as syndication agent, and other financial institutions. On December 22, 2011, the Company amended and restated the secured revolving credit facility to, among other things, provide a U.S. dollar secured revolving facility of $340 million (including a $130 million sub-limit for letters of credit and a swing line sub-limit of $40 million) and a $35 million multicurrency secured revolving facility (including a $15 million sub-limit for letters of credit and a swing line sub-limit of $5 million), which is available for borrowings by either TWCC or its Canadian subsidiary, in U.S. dollars or Canadian dollars.

On August 31, 2012, the Company and lenders amended and restated the secured revolving credit facility to, among other things, improve interest rates applicable to pricing, extend the maturity of the facility, and allow borrowings in currencies other than U.S. dollars or Canadian dollars subject to the consent of all multicurrency lenders. The aggregate principal amount of the facility remained unchanged at $375 million consisting of a $340 million U.S. dollar secured revolving credit facility and a $35 million multicurrency secured revolving credit facility (although the sub-limit for U.S. dollar letters of credit was increased to $175 million).

NOTE 7—LONG-TERM DEBT (Continued)

Amended and Restated Credit Facility

On September 16, 2015, the Company and a syndicate of lenders amended and restated the secured revolving credit facility (the "amended revolving credit facility") to, among other things: (i) refinance the Company's existing credit facility in order to achieve better pricing terms and (ii) provide additional liquidity to be used for ongoing working capital purposes and for general corporate purposes. The aggregate principal amount of the amended revolving credit facility was increased from $375 million to $500 million to provide for (i) a $400 million U.S. dollar revolving facility (including a $175 million sub-limit for letters of credit and a swing line sub-limit of $50 million) available for borrowings by TWCC and (ii) a $100 million multicurrency revolving facility (including a $40 million sub-limit for letters of credit and a swing line sub-limit of $15 million), available for borrowing by TWCC and certain other subsidiaries of TWCC, in U.S. dollars, Canadian dollars, Euros, Pounds Sterling, or other currencies agreed to by the applicable lenders.

In connection with the amendment, the Company paid approximately $1.6 million in debt issuance costs in connection with the amended and restated secured revolving credit agreement in fiscal 2015. These newly-incurred debt issuance costs, together with certain existing unamortized debt issuance costs, are being amortized over the remaining term of the amended revolving credit facility (five years). The amended revolving credit facility matures September 16, 2020.

As of January 2, 2016, the Company had approximately $184.4 million in outstanding borrowings under its secured revolving credit facility, exclusive of $7.7 million of outstanding letters of credit. As of January 2, 2016, there was approximately $307.9 million available for future borrowing.

As of January 2, 2016, the interest rate margins applicable to the amended revolving credit facility were 1.375% for LIBOR (London Interbank Offered Rate) rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 1.125% to 1.875%) and 0.375% for base rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 0.125% to 0.875%).

At January 2, 2016, U.S. dollar borrowings outstanding under the secured revolving credit facility accrued interest at a LIBOR rate plus the applicable base rate, which was 1.72% on that date, and Canadian borrowing outstanding accrued interest at a CDOR rate plus the applicable base rate, which was 2.23% on that date.

Covenants

Subject to certain customary exceptions, the amended revolving credit 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.

The amended revolving credit facility also contains affirmative financial covenants. Specifically, TWCC and its subsidiaries will not (i) permit at the end of any four consecutive fiscal quarters the Lease Adjusted Leverage Ratio (defined as, with certain adjustments, the ratio of the Company's consolidated indebtedness plus six times rent expense, as defined, to consolidated net income before interest, taxes, depreciation, amortization, and rent expense ("EBITDAR")) to exceed 4.00:1.00 (provided, however, that if any "Material Acquisition" occurs and the Lease Adjusted Leverage Ratio on a pro forma basis giving effect to the consummation of the Material Acquisition is less than 4.00:1.00, then the maximum Lease Adjusted Leverage Ratio may be increased to 4.50:1.00 for the fiscal quarter in which such Material Acquisition is consummated and the three fiscal quarters

NOTE 7—LONG-TERM DEBT (Continued)

immediately following the fiscal quarter in which such Material Acquisition occurs) or (ii) permit at the end of any four consecutive fiscal quarters the Consolidated Fixed Charge Coverage Ratio (defined as, with certain adjustments, the ratio of consolidated EBITDAR to consolidated fixed charges (defined as interest plus rent expense)), for any such period to be less than 2.25:1.00 (provided, however, that if any Material Acquisition occurs and the Consolidated Fixed Charge Coverage Ratio on a pro forma basis giving effect to the consummation of the Material Acquisition is at least 2.25:1.00, then the minimum Consolidated Fixed Charge Coverage Ratio may be decreased to 2.00:1.00 for the fiscal quarter in which such Material Acquisition is consummated and the three fiscal quarters immediately following the fiscal quarter in which such Material Acquisition occurs).

The amended revolving credit facility also provides that certain covenants fall away and that the liens over the collateral securing each of the Company and certain subsidiaries' collective obligations are released following, among other things, the achievement of, and during the maintenance of, investment grade ratings by Moody's Investor Services, Inc. and Standard & Poor's Ratings Services.

The amended revolving credit facility also provides for incremental facilities in an aggregate amount not to exceed $250 million, either in the form of a commitment increase under the existing credit facility or the incurrence of one or more tranches of term loans (with the aggregate U.S. dollar amount available to the Company not to exceed $200 million and the aggregate multicurrency amount available not to exceed $50 million).

As of January 2, 2016, the Company was in compliance with its financial debt covenants under the secured revolving credit facility.

NOTE 8—COMMON STOCK

SHARE REPURCHASES

In the second quarter of fiscal 2013, the Company's Board of Directors authorized the repurchase of shares in an amount up to $300 million, inclusive of amounts remaining under previous authorizations. In the third quarter of 2013, the Company's Board of Directors authorized entry into two fixed-dollar accelerated stock repurchase ("ASR") agreements totaling $400 million.

Final settlement of the ASR agreements occurred in January 2014. As of final settlement, the Company had received a total of approximately 5.6 million shares, of which approximately one million million shares were received in January 2014. The total fair market value, at trade dates, of the shares was approximately $398.7 million. All shares received under the ASR agreements were retired upon receipt. The ASR agreements were treated as equity classified forward contracts indexed to the Company's own stock.

During the fiscal year ended January 2, 2016, the Company repurchased, in open market transactions, and retired 1,154,288 shares with an average share price of $95.55 for an aggregate amount of $110.3 million. During the fiscal year ended January 3, 2015, the Company repurchased, in open market transactions, and retired 1,111,899 shares with an average share price of $73.84 for an aggregate amount of $82.1 million.

The total remaining capacity under the repurchase authorizations as of January 2, 2016, was approximately $74.8 million.

On February 24, 2016, the Company's Board of Directors authorized a new $500 million share repurchase program. The new share repurchase authorization permits the Company to repurchase shares of its common stock up to $500 million, in addition to the approximate $74.8 million remaining at January 2, 2016 under previous authorizations described above.

NOTE 8—COMMON STOCK (Continued)

Future share repurchases may occur from time to time in the open market, in negotiated transactions, or otherwise. The timing and amount of any repurchases will be determined by the Company's management, based on its evaluation of market conditions, share price, other investment priorities, and other factors. The share repurchase authorizations have no expiration dates.

DIVIDENDS

In fiscal 2015 the Company's Board of Directors paid quarterly cash dividends of $0.22 per share during all four quarters. In fiscal 2014 the Company's Board of Directors paid quarterly cash dividends of $0.19 per share during all four quarters.

On February 24, 2016, the Company's Board of Directors authorized a quarterly cash dividend payment of $0.33 per common share, payable on March 25, 2016 to shareholders of record at the close of business on March 11, 2016.

Future declarations of dividends and the establishment of future record and payment dates are at the discretion of the Company's Board of Directors based on a number of factors, including the Company's future financial performance and other investment priorities.

Provisions in the Company's secured revolving credit facility and indenture governing its senior notes could have the effect of restricting the Company's ability to pay future cash dividends on or make future repurchases of its common stock, as further described in *Note 7, Long-Term Debt*.

NOTE 9—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.

At the Company's May 13, 2011 shareholders' meeting, the shareholders approved an amendment to the Plan to (i) increase the maximum number of shares of stock available under the existing Plan by 3,725,000 shares from 12,053,392 shares to 15,778,392 shares and (ii) eliminate the Company's ability to grant cash awards and provide tax gross-ups under the Plan. As of January 2, 2016, there were 2,041,526 shares available for grant under the Plan. The Plan makes 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 option exercises.

NOTE 9—STOCK-BASED COMPENSATION (Continued)

The Company recorded stock-based compensation cost as follows:

(dollars in thousands)	For the fiscal years ended January 2, 2016	January 3, 2015	December 28, 2013
Stock options	$ 4,350	$ 4,672	$ 4,728
Restricted stock:			
Time-based awards	6,855	7,018	6,732
Performance-based awards	4,728	4,827	4,127
Stock awards	1,096	1,081	453
Total	$ 17,029	$ 17,598	$ 16,040

All stock-based compensation expense was reflected as a component of selling, general, and administrative expenses, where participants' other compensation expenses are also recorded.

STOCK OPTIONS

Stock options vest in equal annual installments over a four-year period. The Company issues new shares to satisfy stock option exercises.

Changes in the Company's stock options for the fiscal year ended January 2, 2016 were as follows:

	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual terms (years)	Aggregate intrinsic value (in thousands)
Outstanding, January 3, 2015	1,486,390	$39.99		
Granted	201,940	$83.45		
Exercised	(214,420)	$32.53		
Forfeited	(38,750)	$67.31		
Expired	(11,500)	$37.40		
Outstanding, January 2, 2016	1,423,660	$46.56	6.05	$60,556
Vested and Expected to Vest, January 2, 2016	1,363,590	$45.31	5.95	$59,684
Exercisable, January 2, 2016	897,095	$33.41	4.87	$49,900

The intrinsic value of stock options exercised during the fiscal years ended January 2, 2016, January 3, 2015, and December 28, 2013 was approximately $13.2 million, $12.9 million, and $30.0 million, respectively. At January 2, 2016, there was approximately $6.7 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 2.4 years.

NOTE 9—STOCK-BASED COMPENSATION (Continued)

The table below presents the assumptions used to calculate the fair value of options granted in each of the respective fiscal years:

	For the fiscal years ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Expected volatility	31.65%	30.85%	33.15%
Risk-free interest rate	1.65%	1.82%	1.15%
Expected term (years)	6.0	6.0	6.0
Dividend yield	1.06%	1.11%	0.91%
Weighted average fair value of options granted	$ 24.59	$ 19.86	$ 20.21

RESTRICTED STOCK AWARDS

Restricted stock awards issued under the Plan vest based upon continued service (time-based) or performance (performance-based) targets.

The following table summarizes activity related to all restricted stock awards during the fiscal year ended January 2, 2016:

	Restricted stock awards	Weighted-average grant-date fair value
Outstanding, January 3, 2015	674,875	$ 51.34
Granted	157,073	$ 84.25
Vested	(352,396)	$ 43.20
Forfeited	(18,825)	$ 66.91
Outstanding, January 2, 2016	460,727	$ 68.14

During fiscal 2014, a total of 184,133 shares of restricted stock vested with a weighted-average fair value of $42.24 per share. During fiscal 2013, a total of 237,355 shares of restricted stock vested with a weighted-average fair value of $31.40 per share. At January 2, 2016, there was approximately $15.3 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 2.2 years.

Time-based Restricted Stock Awards

Time-based restricted stock awards vest in equal annual installments or cliff vest after a three- or four-year period. During fiscal years 2015, 2014, and 2013, a total of 148,396 shares, 184,133 shares, and 237,355 shares, respectively, of time-based restricted stock vested with a weighted-average fair value of $51.67 per share, $42.24 per share, and $31.40 per share, respectively. At January 2, 2016, there was approximately $10.9 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 2.4 years.

NOTE 9—STOCK-BASED COMPENSATION (Continued)

Performance-based Restricted Stock Awards

Fiscal year	Number of shares granted	Weighted-average fair value per share
2013	118,200	$59.27
2014	61,200	$68.49
2015	50,600	$82.40

During the fiscal year ended January 2, 2016, a total of 204,000 performance shares vested with a weighted-average fair value of $37.03 per share. As of January 2, 2016, a total of 198,400 performance shares were unvested with a weighted-average fair value of $67.66 per share. Vesting of these 198,400 performance shares is based on the performance targets for the shares granted in fiscal 2015, 2014, and 2013. As of January 2, 2016, there was approximately $4.4 million of unrecognized compensation cost (net of estimated forfeitures) related to the unvested performance-based restricted stock awards which is expected to be recognized over a weighted-average period of approximately 1.7 years.

The Company estimates that all of the performance targets will be fully achieved and is recognizing compensation cost ratably over the applicable performance periods based on 100% estimated achievement.

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 2015, 2014, and 2013, such awards were as follows:

	Number of shares issued	Fair value per share	Aggregate value (in thousands)
2013	16,173	$ 66.79	$ 1,080
2014	14,859	$ 72.72	$ 1,081
2015	10,933	$ 100.21	$ 1,096

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

NOTE 10—EMPLOYEE BENEFIT PLANS

The Company maintains a defined contribution plan, 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.

NOTE 10—EMPLOYEE BENEFIT PLANS (Continued)

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:

(dollars in thousands)	For the fiscal years ended January 2, 2016	January 3, 2015
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 63,515	$ 53,386
Interest cost	2,493	2,488
Actuarial (gain) loss	(3,329)	9,420
Benefits paid	(2,304)	(1,779)
Projected benefit obligation at end of year	$ 60,375	$ 63,515
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 52,484	$ 49,618
Actual return on plan assets	439	4,645
Benefits paid	(2,304)	(1,779)
Fair value of plan assets at end of year	$ 50,619	$ 52,484
Unfunded status	$ 9,756	$ 11,031

The accumulated benefit obligation is equal to the projected benefit obligation as of January 2, 2016 and January 3, 2015 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 2016 as the plan's funding exceeds the minimum funding requirements. The actuarial gain incurred in fiscal 2015 was primarily attributable to a higher discount rate. The actuarial loss incurred in fiscal year 2014 was primarily attributable to a lower discount rate, as well as changes in the mortality assumptions.

Net Periodic Pension (Benefit) Cost

The net periodic pension (benefit) cost included in the statement of operations was comprised of:

(dollars in thousands)	For the fiscal years ended January 2, 2016	January 3, 2015	December 28, 2013
Interest cost	$ 2,493	$ 2,488	$ 2,335
Expected return on plan assets	(3,138)	(3,193)	(3,058)
Recognized actuarial loss (a)	643	85	831
Net periodic pension (benefit) cost	$ (2)	$ (620)	$ 108

(a) Represents pre-tax amounts reclassified from accumulated other comprehensive loss. For fiscal 2016, approximately $0.6 million is expected to be reclassified from accumulated other comprehensive loss to a component of net periodic pension cost.

NOTE 10—EMPLOYEE BENEFIT PLANS (Continued)

Assumptions

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

Benefit obligation	2015	2014
Discount rate	4.25%	4.00%

Net periodic pension cost	2015	2014	2013
Discount rate	4.00%	4.75%	4.00%
Expected long-term rate of return on assets	6.00%	6.50%	7.00%

The discount rates used at January 2, 2016, January 3, 2015, and December 28, 2013 were determined with consideration given to the Citigroup Pension Discount and Liability Index and the Barclay Capital 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 $2.2 million.

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

(dollars in thousands) Fiscal Year	
2016	$ 2,300
2017	$ 2,370
2018	$ 2,220
2019	$ 2,270
2020	$ 2,610
2021-2025	$15,470

Plan Assets

The Company's investment strategy is to invest in a well-diversified portfolio consisting of approximately 10 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 40% equity securities, 50% bond funds, and 10% real estate investments. Based on actual returns over a long-term basis, the Company believes that a 6.0% annual return on plan assets can be achieved based on 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 up to 5% of the plan assets invested in 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.

NOTE 10—EMPLOYEE BENEFIT PLANS (Continued)

The fair value of the Company's pension plan assets at January 2, 2016 and January 3, 2015, by asset category, were as follows:

(dollars in thousands) Asset Category	January 2, 2016 Total	Level 1	Level 2	January 3, 2015 Total	Level 1	Level 2
Cash and cash equivalents	$ 149	$ 149	$ —	$ 133	$ 133	$ —
Equity Securities:						
U.S. Large-Cap blend (a)	8,438	4,222	4,216	8,671	4,337	4,334
U.S. Large-Cap growth	4,216	4,216	—	4,346	4,346	—
U.S. Mid-Cap growth	2,550	—	2,550	2,609	—	2,609
U.S. Small-Cap blend	2,523	2,523	—	2,596	2,596	—
International blend	2,523	2,523	—	2,614	2,614	—
Fixed income securities:						
Corporate bonds (b)	25,097	25,097	—	26,325	26,325	—
Real estate (c)	5,123	5,123	—	5,190	5,190	—
	$50,619	$43,853	$6,766	$52,484	$45,541	$6,943

(a) This category comprises low-cost equity index funds not actively managed that track the Standard & Poor's 500 Index.
(b) This category invests in both U.S. Treasuries and mid-term corporate debt from U.S. issuers from diverse industries.
(c) 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 2, 2016	January 3, 2015
APBO at beginning of period	$ 5,331	$ 5,730
Service cost	130	113
Interest cost	178	230
Actuarial (gain) loss	(278)	32
Plan participants' contribution	17	18
Benefits paid	(440)	(501)
Curtailment gain	—	(291)
APBO at end of period	$ 4,938	$ 5,331

NOTE 10—EMPLOYEE BENEFIT PLANS (Continued)

Approximately $4.3 million and $4.7 million of the APBO at the end of fiscal 2015 and 2014, respectively, were classified as other long term liabilities in the Company's consolidated balance sheets.

Net Periodic Post-Retirement Benefit (Benefit) Cost

The components of post-retirement benefit expense charged to the statement of operations were as follows:

(dollars in thousands)	For the fiscal years ended January 2, 2016	January 3, 2015	December 28, 2013
Service cost – benefits attributed to service during the period	$ 130	$ 113	$ 161
Interest cost on accumulated post-retirement benefit obligation	178	230	231
Amortization net actuarial gain (a)	(192)	(206)	(135)
Curtailment gain	—	(291)	(278)
Total net periodic post-retirement cost (benefit)	$ 116	$ (154)	$ (21)

(a) Represents pre-tax amounts reclassified from accumulated other comprehensive loss. For fiscal 2016, approximately $0.2 million is expected to be reclassified from accumulated other comprehensive loss as a credit to periodic net periodic pension cost.

Curtailment

In fiscal 2014 and 2013, a curtailment gain was recognized as a result of the Company's facility closures, which decreased the number of employees eligible for retiree medical benefits.

Assumptions

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

Benefit obligation	2015	2014
Discount rate	3.75%	3.50%

Net periodic pension cost	2015	2014	2013
Discount rate	3.50%	4.25%	3.50%

The discount rates used at January 2, 2016, January 3, 2015, and December 28, 2013, were determined with primary consideration given to the Citigroup Pension Discount 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 $0.4 million in fiscal 2015, and $0.5 million in both of the fiscal years 2014 and 2013. The Company expects that its

NOTE 10—EMPLOYEE BENEFIT PLANS (Continued)

contribution and benefit payments for post-retirement benefit obligations will be approximately $0.4 million for each fiscal year between 2016 and 2020. For the five years subsequent to fiscal 2020, the aggregate contributions and benefit payments for post-retirement benefit obligations is expected to be approximately $1.6 million. The Company does not pre-fund this plan and as a result there are no plan assets. The measurement date used to determine the post-retirement benefit obligations is as of the end of the fiscal year.

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 within the U.S. and Canada. The U.S. plan covers employees who are at least 21 years of age and have completed three months of service, during which at least 250 hours were served. The plan provides for a discretionary employer match. The Company's expense for the U.S. defined contribution savings plan totaled approximately $12.2 million, $10.5 million, and $8.5 million for the fiscal years ended January 2, 2016, January 3, 2015, and December 28, 2013, respectively. Expenses related to the Canadian defined contribution savings plan were not material.

NOTE 11—INCOME TAXES

PROVISION FOR INCOME TAXES

The provision for income taxes consisted of the following:

	For the fiscal years ended		
(dollars in thousands)	**January 2, 2016**	**January 3, 2015**	**December 28, 2013**
Current tax provision:			
Federal	$ 103,316	$ 88,635	$ 71,696
State	10,277	9,049	8,486
Foreign	8,116	6,641	8,280
Total current provision	$ 121,709	$ 104,325	$ 88,462
Deferred tax provision (benefit):			
Federal	$ 6,577	$ 5,519	$ 1,412
State	1,193	41	(942)
Foreign	887	(1,649)	126
Total deferred provision	8,657	3,911	596
Total provision	$ 130,366	$ 108,236	$ 89,058

NOTE 11—INCOME TAXES (Continued)

The foreign portion of the tax position substantially relates to Canadian, Hong Kong and China income taxes on the Company's international operations and foreign tax withholdings related to the Company's foreign royalty income. The components of income before income taxes were as follows:

	For the fiscal years ended		
(dollars in thousands)	**January 2, 2016**	**January 3, 2015**	**December 28, 2013**
Domestic	$ 335,955	$ 286,177	$ 223,907
Foreign	32,233	16,729	25,558
Total	$ 368,188	$ 302,906	$ 249,465

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 years ended		
	January 2, 2016	**January 3, 2015**	**December 28, 2013**
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	2.5%	2.5%	2.5%
Impact of foreign operations	(1.3)%	(1.2)%	(1.4)%
Settlement of uncertain tax positions	(0.8)%	(0.6)%	(0.4)%
Total	35.4%	35.7%	35.7%

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as separate and combined income tax returns in numerous state and foreign jurisdictions.

The Internal Revenue Service completed an income tax audit for fiscal 2011- 2013 in the first quarter of 2015. As a result of the settlement of this audit and on ongoing state income tax audit, the Company recognized prior-year income tax benefits of approximately $1.8 million in the first quarter of 2015. The federal statute of limitations for fiscal 2010 closed during the third quarter of 2014. In most cases, the Company is no longer subject to state and local tax authority examinations for years prior to fiscal 2011.

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NOTE 11—INCOME TAXES (Continued)

DEFERRED TAXES

Components of deferred tax assets and liabilities were as follows:

(dollars in thousands)	January 2, 2016	January 3, 2015
	Assets (Liabilities)	
Deferred tax assets:		
Accounts receivable allowance	$ 4,394	$ 4,990
Inventory	9,019	11,253
Accrued liabilities	15,156	13,947
Equity-based compensation	10,022	10,596
Deferred employee benefits	8,929	8,070
Deferred rent	43,616	37,381
Other	5,125	6,127
Total deferred tax assets	$ 96,261	$ 92,364
Deferred tax liabilities:		
Depreciation	$ (84,610)	$ (70,510)
Tradename and licensing agreements	(101,160)	(102,298)
Other	(5,249)	(4,467)
Total deferred tax liabilities	$(191,019)	$(177,275)

The net deferred tax liability was classified on the Company's consolidated balance sheets as follows:

(dollars in thousands)	January 2, 2016	January 3, 2015
	Assets (Liabilities)	
Current net deferred tax asset	$ 34,080	$ 36,625
Non-current net deferred tax liability	(128,838)	(121,536)
Total deferred tax liability	$ (94,758)	$ (84,911)

The Company has not provided deferred taxes on undistributed earnings from its foreign subsidiaries, as the Company anticipates that these earnings will be reinvested indefinitely. Undistributed earnings from the Company's foreign subsidiaries at January 2, 2016 amounted to approximately $89.7 million. These earnings have been reinvested in foreign operations and the Company does not currently plan to initiate any action that would result in these earnings being repatriated to the U.S. Because of the availability of foreign tax credits, it is not practicable to determine the U.S. federal income tax liability that would be payable if such earnings were not reinvested indefinitely.

NOTE 11—INCOME TAXES (Continued)

UNCERTAIN TAX POSITIONS

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

(dollars in thousands)	
Balance at December 29, 2012	$ 9,763
Additions based on tax positions related to fiscal 2013	3,200
Additions for prior year tax positions	(375)
Reductions for lapse of statute of limitations	(1,029)
Reductions for prior year tax settlements	(377)
Balance at December 28, 2013	$11,182
Additions based on tax positions related to fiscal 2014	2,572
Reductions for prior year tax positions	(471)
Reductions for lapse of statute of limitations	(1,536)
Reductions for prior year tax settlements	(436)
Balance at January 3, 2015	$11,311
Additions based on tax positions related to fiscal 2015	2,840
Reductions for prior year tax positions	(260)
Reductions for lapse of statute of limitations	(1,427)
Reductions for prior year tax settlements	(3,049)
Balance at January 2, 2016	$ 9,415

As of January 2, 2016, the Company had gross unrecognized tax benefits of approximately $9.4 million, of which $6.5 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 $1.2 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 2016 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 2015, 2014, and 2013, interest expense recorded on uncertain tax positions was not significant. The Company had approximately $0.8 million and $0.9 million of interest accrued on uncertain tax positions as of January 2, 2016 and January 3, 2015, respectively.

NOTE 12—EARNINGS PER SHARE

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

	For the fiscal years ended		
	January 2, 2016	January 3, 2015	December 28, 2013
Weighted-average number of common and common equivalent shares outstanding:			
Basic number of common shares outstanding	51,835,053	52,614,425	56,931,216
Dilutive effect of equity awards	499,583	479,114	590,951
Diluted number of common and common equivalent shares outstanding	52,334,636	53,093,539	57,522,167
Earnings per share: *(dollars in thousands, except per share data)*			
Basic net income per common share:			
Net income	$ 237,822	$ 194,670	$ 160,407
Income allocated to participating securities	(2,184)	(2,586)	(2,144)
Net income available to common shareholders	$ 235,638	$ 192,084	$ 158,263
Basic net income per common share	$ 4.55	$ 3.65	$ 2.78
Diluted net income per common share:			
Net income	$ 237,822	$ 194,670	$ 160,407
Income allocated to participating securities	(2,167)	(2,568)	(2,126)
Net income available to common shareholders	$ 235,655	$ 192,102	$ 158,281
Diluted net income per common share	$ 4.50	$ 3.62	$ 2.75
Anti-dilutive shares excluded from dilutive earnings per share calculations (1)	*192,740*	*230,150*	*355,900*

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

In connection with the 2013 ASR agreements discussed in *Note 8, Common Stock*, the Company received one million additional shares in January 2014 for a total of approximately 5.6 million shares during fiscal 2014 and 2013 under the ASR program. The shares were retired upon receipt and, accordingly, reduced the Company's weighted average shares outstanding for purposes of the calculation of earnings per share.

The Company evaluated the ASR agreements for their potential dilution of earnings per share and determined, for all periods impacted by the ASR agreements, that the Company would not have been required to deliver additional shares to JPMorgan based on the volume-weighted average prices calculated for all impacted periods. The Company determined that these shares would have had an anti-dilutive effect and excluded these shares from the diluted earnings per share calculation for all periods.

NOTE 13—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

NOTE 13—SEGMENT INFORMATION (Continued)

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 accounting policies of the segments are the same as those described in *Note 2, Summary of Significant Accounting Policies*. The Company's reportable segments are Carter's Wholesale, Carter's Retail, OshKosh Retail, OshKosh Wholesale, and International.

The table below presents certain segment information for the periods indicated:

	For the fiscal years ended					
(dollars in thousands)	January 2, 2016	% of Total	January 3, 2015	% of Total	December 28, 2013	% of Total
Net sales:						
Carter's Retail (a)	$1,151,268	38.2%	$1,087,165	37.6%	$ 954,160	36.2%
Carter's Wholesale	1,107,706	36.8%	1,081,888	37.4%	1,035,420	39.2%
Total Carter's	2,258,974	75.0%	2,169,053	75.0%	1,989,580	75.4%
OshKosh Retail (a)	363,087	12.0%	335,140	11.6%	289,311	11.0%
OshKosh Wholesale	65,607	2.2%	73,201	2.5%	74,564	2.8%
Total OshKosh	428,694	14.2%	408,341	14.1%	363,875	13.8%
International (b)	326,211	10.8%	316,474	10.9%	285,256	10.8%
Total net sales	$3,013,879	100.0%	$2,893,868	100.0%	$2,638,711	100.0%
Operating income (loss):		% of segment net sales		% of segment net sales		% of segment net sales
Carter's Retail (a)	$ 199,040	17.3%	$ 211,297	19.4%	$ 181,169	19.0%
Carter's Wholesale	232,497	21.0%	185,463	17.1%	185,501	17.9%
Total Carter's	431,537	19.1%	396,760	18.3%	366,670	18.4%
OshKosh Retail (a)	11,931	3.3%	8,210	2.4%	(1,433)	(0.5)%
OshKosh Wholesale	13,270	20.2%	8,842	12.1%	9,796	13.1%
Total OshKosh	25,201	5.9%	17,052	4.2%	8,363	2.3%
International (b) (c)	47,004	14.4%	39,470	12.5%	40,641	14.2%
Corporate expenses (d) (e)	(110,885)		(119,937)		(151,523)	
Total operating income	$ 392,857	13.0%	$ 333,345	11.5%	$ 264,151	10.0%

(a) Includes eCommerce results.

(b) Net sales include international retail, eCommerce, and wholesale sales. Operating income includes international licensing income.

NOTE 13—SEGMENT INFORMATION (Continued)

(c) Includes the following charges:

(dollars in millions)	For the fiscal years ended January 2, 2016	January 3, 2015	December 28, 2013
Revaluation of contingent consideration	$ 1.9	$ 1.3	$ 2.8
Exit from Japan retail operations	$ —	$ 0.5	$ 4.1

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

(e) Includes the following charges:

(dollars in millions)	For the fiscal years ended January 2, 2016	January 3, 2015	December 28, 2013
Office consolidation costs	$ —	$ 6.6	$ 33.3
Amortization of H.W. Carter and Sons tradenames	$ 6.2	$ 16.4	$ 13.6
Closure of distribution facility in Hogansville, GA (1)	$ —	$ 0.9	$ 1.9

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

ADDITIONAL DATA BY SEGMENT

Inventory

The table below represents inventory by segment:

(dollars in thousands)	For the fiscal years ended January 2, 2016	January 3, 2015
Carter's Wholesale	$ 271,117	$ 240,669
Carter's Retail	68,694	84,004
OshKosh Retail	31,136	31,829
OshKosh Wholesale	50,027	39,879
International	48,960	48,463
Total	$ 469,934	$ 444,844

Wholesale inventories include inventory produced and warehoused for the retail segment.

NOTE 13—SEGMENT INFORMATION (Continued)

The table below represents consolidated net sales by product:

	For the fiscal years ended		
(dollars in thousands)	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)	December 28, 2013 (52 weeks)
Baby	$1,173,002	$1,107,973	$ 975,374
Playclothes	1,182,281	1,146,797	1,074,581
Sleepwear	378,419	381,574	366,289
Other (a)	280,177	257,524	222,467
Total net sales	$3,013,879	$2,893,868	$2,638,711

(a) Other product offerings include bedding, outwear, 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 65.6% and 67.9% of total international sales in fiscal 2015 and 2014, respectively.

Long-Lived Assets

The following represents property, plant, and equipment, net, by geographic area:

	For the fiscal years ended	
(dollars in thousands)	January 2, 2016	January 3, 2015
United States	$ 342,354	$ 305,093
International	29,350	28,004
Total	$ 371,704	$ 333,097

Long-lived assets in the international segment relate principally to Canada. Long-lived assets in Canada were 89.5% and 98.1% of total international long-lived assets at the end of fiscal 2015 and 2014, respectively.

NOTE 14—FAIR VALUE MEASUREMENTS

The following table summarizes assets and liabilities measured at fair value on a recurring basis:

	January 2, 2016			January 3, 2015		
(dollars in millions)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investments	$8.6	$ —	$—	$7.6	$—	$ —
Foreign exchange forward contracts (1)	$ —	$2.1	$—	$ —	$—	$ —
Liabilities						
Contingent consideration	$ —	$ —	$—	$ —	$—	$7.7

(1) Included in Prepaid expenses and other current assets in the Company's consolidated balance sheet.

NOTE 14—FAIR VALUE MEASUREMENTS (Continued)

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 purchased are included in other assets on the accompanying consolidated balance sheets. Gains on the mark to market of marketable securities were not material for fiscal 2015, and were $0.4 million for fiscal 2014.

The fair value of the Company's pension plan assets at January 2, 2016 and January 3, 2015, by asset category, are disclosed in Note 10, *Employee Benefits Plans*, to these consolidated financial statements.

FOREIGN CURRENCY CONTRACTS

Fair values for unsettled foreign exchange forward contracts are calculated by using readily observable market inputs (market-quoted currency exchange rates in effect between U.S. and Canadian dollars), classified as Level 2 within the fair value hierarchy, and included in other current assets or other current liabilities on the Company's consolidated balance sheet.

At January 2, 2016, the notional value of the open foreign currency forward contracts was approximately $59.0 million.

During fiscal 2015, the Company recorded unrealized gains of approximately $2.1 million related to the mark-to-market adjustments. The Company recorded realized gains of approximately $3.1 million for contracts settled. These amounts are included in other (income) expense, net on the Company's consolidated statement of operations.

During fiscal 2014 and fiscal 2013, the Company did not utilize foreign exchange contracts.

CONTINGENT CONSIDERATION RELATED TO BONNIE TOGS ACQUISITION

At January 2, 2016, the Company had no remaining contingent consideration liability related to the 2011 Bonnie Togs acquisition in Canada.

The following summarizes the significant unobservable inputs for the Company's Level 3 fair value measurements at December January 3, 2015:

(dollars in millions)	Fair Value (USD)	Valuation technique	Unobservable inputs	Amount (CAD)
Contingent consideration	$7.7	Discounted cash flow	Estimated contingent consideration payment	C$10
			Discount rate	18%
			Probability assumption	100%

BORROWINGS

As of January 2, 2016, the Level 2 fair value of the Company's $184 million in borrowings under its secured revolving credit facility approximated carrying value. The fair value of the Company's $400 million senior notes

NOTE 14—FAIR VALUE MEASUREMENTS (Continued)

was estimated by obtaining market quotes given the trading levels of other bonds of the same general issuer type and market perceived credit quality and is, therefore, within Level 2 of the fair value hierarchy. The fair value of the outstanding senior notes as of January 2, 2016 was approximately $409 million.

NOTE 15—OTHER CURRENT AND LONG-TERM LIABILITIES

Other current liabilities that exceeded five percent of total current liabilities (at the end of either fiscal year) consisted of the following:

(dollars in thousands)	January 2, 2016	January 3, 2015
Accrued bonuses and incentive compensation	$ 17,934	$ 18,875
Accrued employee benefits	$ 19,751	$ 17,131

Other long-term liabilities that exceeded five percent of total liabilities (at the end of either fiscal year) consisted of the following:

(dollars in thousands)	January 2, 2016	January 3, 2015
Deferred lease incentives	$ 70,060	$ 67,205

NOTE 16—FACILITY CLOSURE

HOGANSVILLE DISTRIBUTION FACILITY

In 2012, the Company announced its plan to close its Hogansville, Georgia distribution facility. In connection with this plan, the Company recorded approximately $1.9 million in closing-related charges in selling, general, and administrative expenses for fiscal 2013. There were no additional closing-related charges recorded for the fiscal 2015 and 2014. There was no ending liability amount as of January 2, 2016. The Hogansville facility was sold in the fourth quarter of 2014 for an amount that approximated carrying value.

OFFICE CONSOLIDATION

In 2013 and 2014, the Company consolidated its Shelton, Connecticut and Atlanta, Georgia offices, as well as certain functions from our other offices, into a new headquarters facility in Atlanta, Georgia. The Company recorded approximately $6.6 million, and $33.3 million in closing-related costs in fiscal 2014 and 2013, respectively, in connection with this plan. There were no closing-related costs recorded in fiscal 2015 in connection with this plan, and no additional costs are expected to be incurred in the future.

For fiscal year 2014 and 2013, the total amount of charges was included in selling, general, and administrative expenses and consisted of the following:

	For the fiscal years ended	
(dollars in millions)	January 3, 2015	December 28, 2013
Other closure costs	$ 5.7	$ 24.5
Severance and other benefits	0.9	4.8
Accelerated depreciation	—	4.0
Total	$ 6.6	$ 33.3

NOTE 16—FACILITY CLOSURE (Continued)

The following table summarizes the restructuring reserves related to the office consolidation as of January 2, 2016:

(dollars in millions)	Severance	Other closure costs	Total
Balance at January 3, 2015	$ 0.8	$ 2.8	$ 3.6
Payments	(0.6)	(0.8)	(1.4)
Balance at January 2, 2016	$ 0.2	$ 2.0	$ 2.2

The severance reserve is included in other current liabilities and other closure costs are included in other long-term liabilities in the Company's consolidated balance sheets. The Company has completed its office consolidation efforts. The severance accrual is expected to be fully paid during fiscal 2016. Other closure costs relate to an ongoing lease liability for the closed office in Shelton, Connecticut.

JAPAN RETAIL OPERATIONS

In 2013, the Company made the decision to exit retail operations in Japan based on revised forecasts which did not meet the Company's investment objectives. The Company recorded approximately $1.5 million and $4.1 million in closing related costs for the fiscal years 2014 and 2013, respectively. There were no related costs to the exit of Japan operations recorded in fiscal 2015, and no additional related costs are expected in the future.

NOTE 17—LEASE COMMITMENTS

Rent expense under operating leases (including properties and computer and office equipment) was approximately $136.6 million, $123.6 million, and $117.3 million for the fiscal years ended January 2, 2016, January 3, 2015, and December 28, 2013, respectively.

Minimum annual rental commitments under current noncancellable operating leases, as of January 2, 2016, substantially all of which relate to leased real estate, were as follows:

Fiscal Year (dollars in thousands)	Operating Leases
2016	$ 141,707
2017	136,104
2018	127,376
2019	115,097
2020	104,317
Thereafter	369,410
Total	$ 994,011

Amounts related to property include leases on retail stores as well as various corporate offices, distribution facilities, and other premises. The majority of the Company's lease terms range between 5 and 10 years.

NOTE 18—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 also include obligations associated with leases, the secured revolving credit agreement, senior notes, employee benefit plans, and facility consolidations/closures as disclosed elsewhere in the notes to the consolidated financial statements.

NOTE 19—VALUATION AND QUALIFYING ACCOUNTS

Information regarding accounts receivable is as follows:

(dollars in thousands)	Accounts receivable reserves	Sales returns reserves	Total
Balance at December 29, 2012	$ 7,188	$ 400	$ 7,588
Additional provisions	10,245	1,110	11,355
Charges to reserve	(8,125)	(1,110)	(9,235)
Balance at December 28, 2013	$ 9,308	$ 400	$ 9,708
Additional provisions	9,919	715	10,634
Charges to reserve	(7,419)	(715)	(8,134)
Balance at January 3, 2015	$11,808	$ 400	$12,208
Additional provisions	4,170	264	4,434
Charges to reserve	(7,435)	(264)	(7,699)
Balance at January 2, 2016	$ 8,543	$ 400	$ 8,943

NOTE 20—UNAUDITED QUARTERLY FINANCIAL DATA

The unaudited summarized financial data by quarter for the fiscal years ended January 2, 2016 and January 3, 2015 is presented in the table below:

(dollars in thousands, except per share data)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Fiscal 2015				
Net sales	$684,764	$612,765	$849,806	$866,544
Gross profit	$284,052	$262,895	$347,539	$363,538
Selling, general, and administrative expenses	$211,183	$209,296	$230,017	$258,737
Royalty income	$(11,636)	$ (8,353)	$(12,699)	$(11,378)
Operating income	$ 84,505	$ 61,952	$130,221	$116,179
Net income	$ 49,792	$ 36,105	$ 79,326	$ 72,599
Basic net income per common share (1)	$ 0.94	$ 0.69	$ 1.52	$ 1.40
Diluted net income per common share (1)	$ 0.94	$ 0.68	$ 1.51	$ 1.39
Fiscal 2014: (2)				
Net sales	$651,643	$574,065	$798,936	$869,224
Gross profit	$261,725	$245,477	$321,206	$356,032
Selling, general, and administrative expenses	$210,095	$206,315	$221,939	$251,902
Royalty income	$ (9,901)	$ (8,185)	$(11,190)	$ (9,880)
Operating income	$ 61,531	$ 47,347	$110,457	$114,010
Net income	$ 34,297	$ 25,897	$ 65,886	$ 68,590
Basic net income per common share (1)	$ 0.64	$ 0.48	$ 1.24	$ 1.30
Diluted net income per common share (1)	$ 0.63	$ 0.48	$ 1.23	$ 1.29

(1) May not be additive to the net income per common share amounts for the fiscal year due to the calculation provision of ASC 260, *Earnings Per Share*.
(2) The fourth quarter of fiscal 2014 contained 14 weeks instead of the typical 13 weeks for each quarter in a fiscal year that contains 52 weeks.

NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The Company's senior notes constitute debt obligations of its wholly-owned subsidiary, The William Carter Company ("TWCC" or the "Subsidiary Issuer"), are unsecured and are fully and unconditionally guaranteed by Carter's, Inc. (the "Parent"), by each of the Parent's current domestic subsidiaries (other than TWCC), and, subject to certain exceptions, future restricted subsidiaries that guarantee the Company's amended revolving credit facility or certain other debt of the Company or the subsidiary guarantors. Under specific customary conditions, the guarantees are not full and unconditional because subsidiary guarantors can be released and relieved of their obligations under customary circumstances contained in the indenture governing the senior notes. These circumstances include among others the following, so long as other applicable provisions of the indentures are adhered to: any sale or other disposition of all or substantially all of the assets of any subsidiary guarantor, any sale or other disposition of capital stock of any subsidiary guarantor, or designation of any restricted subsidiary that is a subsidiary guarantor as an unrestricted subsidiary.

The condensed consolidating financial information for the Parent, the Subsidiary Issuer, and the guarantor and non-guarantor subsidiaries has been prepared from the books and records maintained by the Company. The

NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10. The financial information may not necessarily be indicative of the financial position, results of operations, comprehensive income (loss), and cash flows, had the Parent, Subsidiary Issuer, guarantor or non-guarantor subsidiaries operated as independent entities.

Intercompany revenues and expenses included in the subsidiary records are eliminated in consolidation. As a result of this activity, an amount due to/due from affiliates will exist at any time. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions. The Company has accounted for investments in subsidiaries under the equity method. The guarantor subsidiaries are 100% owned directly or indirectly by the Parent and all guarantees are joint, several and unconditional.

In fiscal 2014, the Company revised its Guarantor Condensed Consolidating Statements of Comprehensive Income to correct a presentation error related to certain other comprehensive income (loss) transactions within the Subsidiary Issuer and Guarantor Subsidiaries columns in the Company's previously filed Form 10-Q for the first and second fiscal quarters of 2014, which includes the comparative periods, and for the fiscal years ended December 28, 2013 and December 29, 2012. These presentation items had no effect on the Company's Consolidated Financial Statements. The Company concluded that these items were not material to the financial statements taken as a whole, but elected to revise previously reported amounts within this footnote for all periods presented. Future filings will reflect these revisions.

In December 2015, as part of a foreign subsidiary restructuring, certain non-guarantor subsidiaries became subsidiaries of certain other non-guarantor subsidiaries. The restructuring did not retroactively impact the prior status of the guarantor and the non-guarantor subsidiaries, and accordingly the condensed consolidating financial information for periods prior to the restructuring have not been adjusted to reflect the restructuring.

NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Balance Sheet
As of January 2, 2016
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ 325,771	$ 14,652	$ 40,786	$ —	$ 381,209
Accounts receivable, net	—	178,842	23,980	4,748	—	207,570
Intercompany receivable	—	52,676	133,092	3,317	(189,085)	—
Intercompany loan receivable	—	—	—	—	—	—
Finished goods inventories	—	271,148	184,618	48,960	(34,792)	469,934
Prepaid expenses and other current assets	—	18,317	14,261	6,094	—	38,672
Deferred income taxes	—	19,502	13,544	1,034	—	34,080
Total current assets	—	866,256	384,147	104,939	(223,877)	1,131,465
Property, plant, and equipment, net	—	162,031	180,322	29,351	—	371,704
Goodwill	—	136,570	—	38,304	—	174,874
Tradenames and other intangibles, net	—	225,348	85,500	—	—	310,848
Deferred debt issuance costs, net	—	6,813	—	—	—	6,813
Other assets	—	12,423	665	321	—	13,409
Intercompany long-term receivable	—	—	294,070	—	(294,070)	—
Intercompany long-term note receivable	—	100,000	—	—	(100,000)	—
Investment in subsidiaries	875,051	652,598	100,146	—	(1,627,795)	—
Total assets	$875,051	$2,162,039	$1,044,850	$172,915	$(2,245,742)	$2,009,113
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ —	$ 93,585	$ 44,951	$ 19,112	$ —	$ 157,648
Intercompany payables	—	134,694	51,362	3,029	(189,085)	—
Intercompany loan payables	—	—	—	—	—	—
Other current liabilities	—	12,996	80,908	11,166	—	105,070
Total current liabilities	—	241,275	177,221	33,307	(189,085)	262,718
Long-term debt	—	566,000	—	18,431	—	584,431
Deferred income taxes	—	84,038	44,800	—	—	128,838
Intercompany long-term liability	—	294,070	—	—	(294,070)	—
Intercompany long-term note payable	—	—	100,000	—	(100,000)	—
Other long-term liabilities	—	66,813	79,568	11,694	—	158,075
Stockholders' equity	875,051	909,843	643,261	109,483	(1,662,587)	875,051
Total liabilities and stockholders' equity	$875,051	$2,162,039	$1,044,850	$172,915	$(2,245,742)	$2,009,113

NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Balance Sheet
As of January 3, 2015
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ —	$ 311,078	$ 10,442	$ 19,118	$ —	$ 340,638
Accounts receivable, net	—	155,192	22,770	6,601	—	184,563
Intercompany receivable	—	58,402	106,137	2,012	(166,551)	—
Intercompany loan receivable	—	20,000	—	—	(20,000)	—
Finished goods inventories, net	—	240,702	191,953	48,463	(36,274)	444,844
Prepaid expenses and other current assets	—	15,143	13,059	6,586	—	34,788
Deferred income taxes	—	21,308	12,983	2,334	—	36,625
Total current assets	—	821,825	357,344	85,114	(222,825)	1,041,458
Property, plant, and equipment, net	—	158,017	147,076	28,004	—	333,097
Goodwill	—	136,570	—	45,405	—	181,975
Tradenames and other intangibles, net	—	231,765	85,500	32	—	317,297
Deferred debt issuance costs, net	—	6,677	—	—	—	6,677
Other assets	—	11,781	811	—	—	12,592
Intercompany long-term receivable	—	—	274,584	—	(274,584)	—
Intercompany long-term note receivable	—	100,000	—	—	(100,000)	—
Investment in subsidiaries	786,684	591,735	9,647	—	(1,388,066)	—
Total assets	$786,684	$2,058,370	$874,962	$158,555	$(1,985,475)	$1,893,096
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	$ —	$ 102,233	$ 37,869	$ 10,141	$ —	$ 150,243
Intercompany payables	—	105,940	55,812	4,799	(166,551)	—
Intercompany loan payables	—	—	—	20,000	(20,000)	—
Other current liabilities	—	15,782	67,793	14,153	—	97,728
Total current liabilities	—	223,955	161,474	49,093	(186,551)	247,971
Long-term debt	—	586,000	—	—	—	586,000
Deferred income taxes	—	81,406	40,130	—	—	121,536
Intercompany long-term liability	—	274,584	—	—	(274,584)	—
Intercompany long-term note payable	—	—	100,000	—	(100,000)	—
Other long-term liabilities	—	69,467	68,426	13,012	—	150,905
Stockholders' equity	786,684	822,958	504,932	96,450	(1,424,340)	786,684
Total liabilities and stockholders' equity	$786,684	$2,058,370	$874,962	$158,555	$(1,985,475)	$1,893,096

NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Statement of Operations
For the year end January 2, 2016
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$1,813,950	$1,639,826	$246,158	$(686,055)	$3,013,879
Cost of goods sold	—	1,286,411	989,284	136,317	(656,157)	1,755,855
Gross profit	—	527,539	650,542	109,841	(29,898)	1,258,024
Selling, general, and administrative expenses	—	181,150	679,532	88,257	(39,706)	909,233
Royalty income	—	(32,978)	(19,414)	—	8,326	(44,066)
Operating income (loss)	—	379,367	(9,576)	21,584	1,482	392,857
Interest expense	—	26,550	5,331	557	(5,407)	27,031
Interest income	—	(5,826)	—	(81)	5,407	(500)
(Income) loss in subsidiaries	(237,822)	19,775	(9,742)	—	227,789	—
Other (income), net	—	(6)	(60)	(1,796)	—	(1,862)
Income (loss) before income taxes	237,822	338,874	(5,105)	22,904	(226,307)	368,188
Provision for income taxes	—	102,534	20,590	7,242	—	130,366
Net income (loss)	$ 237,822	$ 236,340	$ (25,695)	$ 15,662	$(226,307)	$ 237,822

NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Statement of Operations
For the year end January 3, 2015
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$1,770,238	$1,564,717	$241,191	$(682,278)	$2,893,868
Cost of goods sold	—	1,271,260	936,260	138,838	(636,930)	1,709,428
Gross profit	—	498,978	628,457	102,353	(45,348)	1,184,440
Selling, general, and administrative expenses	—	203,371	646,728	91,521	(51,369)	890,251
Royalty income	—	(30,741)	(18,896)	—	10,481	(39,156)
Operating income (loss)	—	326,348	625	10,832	(4,460)	333,345
Interest expense	—	27,651	5,310	343	(5,651)	27,653
Interest income	—	(5,998)	—	(56)	5,651	(403)
(Income) loss in subsidiaries	(194,670)	20,226	(15,050)	—	189,494	—
Other (income) expense, net	—	(235)	2,263	1,161	—	3,189
Income (loss) before income taxes	194,670	284,704	8,102	9,384	(193,954)	302,906
Provision for income taxes	—	85,574	19,441	3,221	—	108,236
Net income (loss)	$ 194,670	$ 199,130	$ (11,339)	$ 6,163	$(193,954)	$ 194,670

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NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Statement of Operations
For the year end December 28, 2013
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ —	$1,637,361	$1,397,540	$220,438	$(616,628)	$2,638,711
Cost of goods sold	—	1,170,073	819,798	112,503	(559,042)	1,543,332
Gross profit	—	467,288	577,742	107,935	(57,586)	1,095,379
Selling, general, and administrative expenses	—	204,255	632,854	102,115	(70,744)	868,480
Royalty income	—	(28,174)	(17,909)	—	8,831	(37,252)
Operating income (loss)	—	291,207	(37,203)	5,820	4,327	264,151
Interest expense	—	13,374	598	63	(598)	13,437
Interest income	—	(1,100)	—	(167)	598	(669)
(Income) loss in subsidiaries	(160,407)	51,973	10,122	—	98,312	—
Other expense (income), net	—	(358)	403	1,873	—	1,918
Income (loss) before income taxes	160,407	227,318	(48,326)	4,051	(93,985)	249,465
Provision for income taxes	—	71,238	11,061	6,759	—	89,058
Net income (loss)	$ 160,407	$ 156,080	$ (59,387)	$ (2,708)	$ (93,985)	$ 160,407

NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Statements of Comprehensive Income (Loss)
For the year end January 2, 2016
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$237,822	$236,340	$(25,695)	$ 15,662	$(226,307)	$237,822
Post-retirement benefit plans	859	859	803	—	(1,662)	859
Foreign currency translation adjustments	(14,189)	(14,189)	(29,574)	(14,189)	57,952	(14,189)
Comprehensive income (loss)	$224,492	$223,010	$(54,466)	$ 1,473	$(170,017)	$224,492

For the year end January 3, 2015
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$194,670	$199,130	$(11,339)	$ 6,163	$(193,954)	$194,670
Post-retirement benefit plans	(5,110)	(5,110)	(4,963)	—	10,073	(5,110)
Foreign currency translation adjustments	(7,845)	(7,845)	(251)	(7,845)	15,941	(7,845)
Comprehensive income (loss)	$181,715	$186,175	$(16,553)	$(1,682)	$(167,940)	$181,715

For the year end December 28, 2013
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net income (loss)	$160,407	$156,080	$(59,387)	$(2,708)	$(93,985)	$160,407
Post-retirement benefit plans	6,609	6,609	6,237	—	(12,846)	6,609
Foreign currency translation adjustments	(5,486)	(5,486)	354	(5,486)	10,618	(5,486)
Comprehensive income (loss)	$161,530	$157,203	$(52,796)	$(8,194)	$(96,213)	$161,530

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NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Statement of Cash Flows
For the year end January 2, 2016
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows provided by operating activities:	$ —	$ 148,656	$115,589	$ 43,742	$ —	$ 307,987
Cash flows from investing activities:						
Capital expenditures	—	(27,813)	(64,707)	(10,977)	—	(103,497)
Intercompany investing activity	161,993	5,642	(2,735)	(8,582)	(156,318)	—
Proceeds from repayment of intercompany loan	—	35,000	—	—	(35,000)	—
Issuance of intercompany loan	—	(15,000)	—	—	15,000	—
Proceeds from sale of property, plant and equipment	—	65	—	7	—	72
Net cash provided by (used in) investing activities	161,993	(2,106)	(67,442)	(19,552)	(176,318)	(103,425)
Cash flows from financing activities:						
Intercompany financing activity	—	(108,761)	(46,672)	(885)	156,318	—
Repayments of intercompany loan	—	—	—	(35,000)	35,000	—
Borrowings from intercompany loans	—	—	—	15,000	(15,000)	—
Borrowings under secured revolving credit facility	—	166,000	—	39,586	—	205,586
Payments on secured revolving credit facility	—	(186,000)	—	(19,237)	—	(205,237)
Payment of debt issuance costs	—	(1,628)	—	—	—	(1,628)
Payment of contingent consideration	—	(7,572)	—	—	—	(7,572)
Dividends paid	(46,028)	—	—	—	—	(46,028)
Repurchase of common stock	(110,290)	—	—	—	—	(110,290)
Income tax benefit from stock-based compensation	—	6,104	2,735	—	—	8,839
Withholdings from vesting of restricted stock	(12,651)	—	—	—	—	(12,651)
Proceeds from exercise of stock options	6,976	—	—	—	—	6,976
Net cash (used in) provided by financing activities	(161,993)	(131,857)	(43,937)	(536)	176,318	(162,005)
Effect of exchange rate changes on cash	—	—	—	(1,986)	—	(1,986)
Net increase in cash and cash equivalents	—	14,693	4,210	21,668	—	40,571
Cash and cash equivalents, beginning of period	—	311,078	10,442	19,118	—	340,638
Cash and cash equivalents, end of period	$ —	$ 325,771	$ 14,652	$ 40,786	$ —	$ 381,209

NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Statement of Cash Flows
For the year end January 3, 2015
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows provided by operating activities:	$ —	$ 189,945	$ 83,439	$ 9,013	$ —	$ 282,397
Cash flows from investing activities:						
Capital expenditures	—	(45,868)	(46,694)	(10,891)	—	(103,453)
Intercompany investing activity	118,060	15,864	(2,445)	(8,901)	(122,578)	—
Proceeds from repayment of intercompany loan	—	15,000	—	—	(15,000)	—
Issuance of intercompany loan	—	(35,000)	—	—	35,000	—
Acquisition of tradenames	—	(3,550)	—	—	—	(3,550)
Proceeds from sale of property, plant and equipment	—	2,267	—	4	—	2,271
Net cash provided by (used in) investing activities	118,060	(51,287)	(49,139)	(19,788)	(102,578)	(104,732)
Cash flows from financing activities:						
Intercompany financing activity	—	(99,018)	(26,302)	2,742	122,578	—
Repayment of intercompany loan	—	—	—	(15,000)	15,000	—
Proceeds from intercompany loan	—	—	—	35,000	(35,000)	—
Payment of debt issuance costs	—	(177)	—	—	—	(177)
Payment of contingent consideration	—	(8,901)	—	—	—	(8,901)
Dividends paid	(40,477)	—	—	—	—	(40,477)
Repurchase of common stock	(82,099)	—	—	—	—	(82,099)
Income tax benefit from stock-based compensation	—	2,256	2,444	—	—	4,700
Withholdings from vesting of restricted stock	(4,548)	—	—	—	—	(4,548)
Proceeds from exercise of stock options	9,064	—	—	—	—	9,064
Net cash (used in) provided by financing activities	(118,060)	(105,840)	(23,858)	22,742	102,578	(122,438)
Effect of exchange rate changes on cash	—	—	—	(1,135)	—	(1,135)
Net decrease in cash and cash equivalents	—	32,818	10,442	10,832	—	54,092
Cash and cash equivalents, beginning of period	—	278,260	—	8,286	—	286,546
Cash and cash equivalents, end of period	$ —	$ 311,078	$ 10,442	$ 19,118	$ —	$ 340,638

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NOTE 21—GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (Continued)

CARTER'S, INC.
Condensed Consolidating Statement of Cash Flows
For the year end December 28, 2013
(dollars in thousands)

	Parent	Subsidiary Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Cash flows provided by operating activities:	$ —	$ 125,482	$ 72,095	$ 12,119	$ —	$ 209,696
Cash flows from investing activities:						
Capital expenditures	—	(111,560)	(59,852)	(11,113)	—	(182,525)
Intercompany investing activity	473,988	26,693	(4,112)	(14,721)	(481,848)	—
Issuance of intercompany loan	—	(100,000)	—	—	100,000	—
Acquisition of tradenames	—	(38,007)	—	—	—	(38,007)
Net cash used in investing activities	473,988	(222,874)	(63,964)	(25,834)	(381,848)	(220,532)
Cash flows from financing activities:						
Proceeds from senior notes	—	400,000	—	—	—	400,000
Intercompany financing activity	—	(361,424)	(119,183)	(1,241)	481,848	—
Proceeds from intercompany loan	—	—	100,000	—	(100,000)	—
Payment of debt issuance costs	—	(6,989)	—	—	—	(6,989)
Payment of contingent consideration	—	(14,721)	—	—	—	(14,721)
Dividends paid	(27,715)	—	—	—	—	(27,715)
Repurchase of common stock	(454,133)	—	—	—	—	(454,133)
Income tax benefit from stock-based compensation	—	6,928	4,112	—	—	11,040
Withholdings from vesting of restricted stock	(5,052)	—	—	—	—	(5,052)
Proceeds from exercise of stock options	12,912	—	—	—	—	12,912
Net cash provided by (used in) financing activities	(473,988)	23,794	(15,071)	(1,241)	381,848	(84,658)
Effect of exchange rate changes on cash	—	—	—	(196)	—	(196)
Net increase in cash and cash equivalents	—	(73,598)	(6,940)	(15,152)	—	(95,690)
Cash and cash equivalents, beginning of period	—	351,858	6,940	23,438	—	382,236
Cash and cash equivalents, end of period	$ —	$ 278,260	$ —	$ 8,286	$ —	$ 286,546

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 2, 2016.

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 2, 2016. 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 2, 2016.

The effectiveness of Carter's, Inc. and its subsidiaries' internal control over financial reporting as of January 2, 2016 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 controls over financial reporting during the fourth quarter of fiscal 2015 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.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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. to be held in May, 2016. 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 last fiscal year end:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders (1)	1,423,660	$46.56	2,041,526
Equity compensation plans not approved by security holders	—	—	—
Total	1,423,660	$46.56	2,041,526

(1) 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

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

(B) Exhibits:

Exhibit Number	Description of Exhibits
3.1	Certificate of Incorporation of Carter's, Inc., as amended on October 29, 2015. Incorporated by reference to Carter's, Inc.'s Quarterly Report on Form 10-Q filed on October 29, 2015.
3.2	Amended and Restated By-laws of Carter's, Inc. Incorporated by reference to Carter's, Inc.'s Current Report on Form 8-K filed on August 26, 2015.
4.1	Specimen Certificate of Common Stock. Incorporated by reference to Carter's, Inc.'s Registration Statement on Form S-1 (No. 333-98679) filed on October 10, 2003.
4.2	Indenture, dated August 12, 2013, by and among The William Carter Company, certain guarantors party thereto from time to time, and Wells Fargo Bank, National Association, as trustee. Incorporated by reference to Carter's, Inc. Current Report on Form 8-K filed on August 12, 2013.
4.3	First Supplemental Indenture, dated June 25, 2014, by and among The William Carter Company, certain guarantors party thereto from time to time, and Wells Fargo Bank, National Association, as Trustee. Incorporated by reference to Carter's, Inc.'s Amendment No. 1 to Registration Statement on Form S-4 filed on June 27, 2014.
4.4	Registration Rights Agreement, dated August 12, 2013, by and among The William Carter Company, the guarantors party thereto, and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Incorporated by reference to Carter's, Inc.'s Periodic Report on Form 8-K filed on August 12, 2013.

Exhibit Number	Description of Exhibits
10.1	Second Amended and Restated Credit Agreement dated as of August 31, 2012, among The William Carter Company, as U.S. borrower, The Genuine Canadian Corp., as Canadian borrower, Bank of America, N.A., as Administrative Agent, U.S. Dollar Facility Swing Line Lender, U.S. Dollar Facility L/C Issuer and Collateral Agent, Bank of America, N.A., Canada Branch, as Canadian Agent, Multicurrency Facility Swing Line Lender and as a Multicurrency Facility L/C Issuer, JPMorgan Chase Bank, N.A., as Syndication Agent, Royal Bank of Canada, SunTrust Bank and U.S. Bank National Association, as Co-Documentation Agents and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Sole Lead Arranger and Sole Bookrunning Manager, and certain other lenders party thereto. Incorporated by reference to Carter's, Inc.'s Current Report on Form 8-K filed on September 4, 2012.
10.2	Amendment to the Second Amended and Restated Credit Facility dated August 7, 2013, Incorporated by reference to Carter's, Inc.'s Quarterly Report on Form 10-Q filed October 24, 2013.
10.3	Third Amended and Restated Credit Agreement, dated as of September 16, 2015, among The William Carter Company, as U.S. Borrower, The Genuine Canada 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/A 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., as Syndication Agent, and certain other lenders party thereto. Incorporated by reference to Carter's, Inc.'s Current Report on Form 8-K filed on September 22, 2015.
10.4	Form of Severance Agreement entered into from time to time between The William Carter Company and executive officers. Incorporated by reference to Carter's Inc.'s Quarterly Report on Form 10-Q filed on October 29, 2015.
10.5	Amended and Restated Equity Incentive Plan. Incorporated by reference to Carter's, Inc.'s Schedule 14A filed on April 5, 2011.
10.6	Amended and Restated Annual Incentive Compensation Plan. Incorporated by reference to Carter's, Inc.'s Schedule 14A filed on April 5, 2011.
10.7	The William Carter Company Severance Plan, dated as of March 1, 2009. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.
10.8	The William Carter Company Deferred Compensation Plan, dated as of November 10, 2010. Incorporated by reference to Carter's, Inc.'s Annual Report on Form 10-K filed on March 2, 2011.
10.9	Lease Agreement dated March 29, 2012 between The William Carter Company and Duke Secured Financing 2009-1 ALZ, LLC. Incorporated by reference to Carter's, Inc. Quarterly Report on Form 10-Q filed on April 27, 2012.
10.10	Lease Agreement dated December 14, 2012 between The William Carter Company and Phipps Tower Associates, LLC. & Lease Termination Agreement dated December 14, 2012 between The William Carter Company and John Hancock Life Insurance Company (U.S.A.). Incorporated by reference to Carter's, Inc.'s Current Report on Form 8-K filed on December 14, 2012.
10.11	Phipps Tower Lease—Second Amendment dated June 17, 2013 Incorporated by reference to Carter's, Inc. Quarterly Report on Form 10-Q filed on July 26, 2013.
21	Subsidiaries of Carter's, Inc.

Exhibit Number	**Description of Exhibits**
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	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.
32	Section 1350 Certification.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(a) 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, 2016

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.

Name	Title	Date
/s/ MICHAEL D. CASEY Michael D. Casey	Chairman and Chief Executive Officer (Principal Executive Officer)	February 25, 2016
/s/ RICHARD F. WESTENBERGER Richard F. Westenberger	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2016
/s/ AMY WOODS BRINKLEY Amy Woods Brinkley	Director	February 25, 2016
/s/ VANESSA J. CASTAGNA Vanessa J. Castagna	Director	February 25, 2016
/s/ A. BRUCE CLEVERLY A. Bruce Cleverly	Director	February 25, 2016
/s/ JEVIN S. EAGLE Jevin S. Eagle	Director	February 25, 2016
/s/ PAUL FULTON Paul Fulton	Director	February 25, 2016

Name	Title	Date
/s/ WILLIAM J. MONTGORIS William J. Montgoris	Director	February 25, 2016
/s/ DAVID PULVER David Pulver	Director	February 25, 2016
/s/ THOMAS E. WHIDDON Thomas E. Whiddon	Director	February 25, 2016

Exhibit 31.1

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, 2016

/s/ MICHAEL D. CASEY

Michael D. Casey
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Richard F. Westenberger, certify that:

1. I have reviewed this 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, 2016

/s/ RICHARD F. WESTENBERGER

Richard F. Westenberger
Chief Financial Officer

Exhibit 32

CERTIFICATION

Each of the undersigned in the capacity indicated hereby certifies that, to his knowledge, this Annual Report on Form 10-K for the fiscal year ended January 2, 2016 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, 2016	/s/ MICHAEL D. CASEY Michael D. Casey *Chief Executive Officer*
February 25, 2016	/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.

RECONCILIATION OF NON-GAAP FINANCIAL MEASUREMENTS

In addition to presenting results prepared in accordance with generally accepted accounting principles (or "GAAP"), the Company has provided adjusted, non-GAAP financial measurements that present gross margin, SG&A, operating income, net income, and net income per diluted share excluding the following items:

	Fiscal year ended January 2, 2016				
(dollars in millions, except earnings per share)	Gross Margin	SG&A	Operating Income	Net Income	Diluted EPS
As reported (GAAP)	$1,258.0	$909.2	$392.9	$237.8	$4.50
Amortization of tradenames	—	(6.2)	6.2	3.9	0.08
Revaluation of contingent consideration (a)	—	(1.9)	1.9	1.9	0.04
As adjusted	$1,258.0	$901.1	$401.0	$243.6	$4.61

	Fiscal year ended January 3, 2015				
(dollars in millions, except earnings per share)	Gross Margin	SG&A	Operating Income	Net Income	Diluted EPS
As reported (GAAP)	$1,184.4	$890.3	$333.3	$194.7	$3.62
Amortization of tradenames	—	(16.4)	16.4	10.4	0.19
Office consolidation costs (b)		(6.6)	6.6	4.2	0.08
Revaluation of contingent consideration (a)	—	(1.3)	1.3	1.3	0.03
Closure of distribution facility in Hogansville, GA	—	(0.9)	0.9	0.6	0.01
Costs to exit retail operations in Japan	(1.0)	(1.5)	0.5	0.3	0.01
As adjusted	$1,183.4	$863.3	$359.3	$211.5	$3.93

	Fiscal year ended December 28, 2013				
(dollars in millions, except earnings per share)	Gross Margin	SG&A	Operating Income	Net Income	Diluted EPS
As reported (GAAP)	$1,095.4	$868.5	$264.2	$160.4	$2.75
Office consolidation costs (b)	—	(33.3)	33.3	21.0	0.36
Amortization of tradenames	—	(13.6)	13.6	8.6	0.15
Costs to exit retail operations in Japan	1.1	(3.0)	4.1	2.6	0.04
Closure of distribution facility in Hogansville, GA	—	(1.9)	1.9	1.2	0.02
Revaluation of contingent consideration (a)	—	(2.8)	2.8	2.8	0.05
As adjusted	$1,096.4	$813.9	$319.8	$196.5	$3.37

(a) Revaluation of the contingent consideration liability associated with the Company's 2011 acquisition of Bonnie Togs.

(b) Costs associated with office consolidation including severance, relocation, accelerated depreciation and other charges.

The adjusted non-GAAP financial information is not necessarily indicative of the Company's future condition or results of operations. These adjustments, which the Company does not believe to be indicative of on-going business trends, are excluded from the above calculations to allow a more comparable evaluation and analysis of historical trends. The adjusted, non-GAAP financial measurements included in this Annual Report should not be considered as alternative to gross margin, SG&A, operating income, net income, or earnings per share, or to any other measurement of performance derived from GAAP.

Note: Amounts may not be additive due to rounding.

carter's, inc.

Notice of 2016 Annual Meeting of Shareholders and
Proxy Statement

carter's, inc.

March 30, 2016

Dear Shareholder,

It is my pleasure to invite you to attend our 2016 Annual Meeting of Shareholders on May 11, 2016 (the "Annual Meeting"). The meeting will be held at 8:00 a.m. at our offices located at 3438 Peachtree Road NE, Atlanta, Georgia 30326.

The attached Notice of the 2016 Annual Meeting of Shareholders and Proxy Statement describe the formal business to be conducted at the meeting. Whether or not you plan to attend the Annual Meeting, your shares can be represented if you promptly submit your voting instructions by telephone, online, or by completing, signing, dating, and returning your proxy card in the enclosed envelope, or by following the instructions you have received from your broker or other nominee.

On behalf of our Board of Directors and Leadership Team, thank you for your investment in Carter's, Inc.

Sincerely,

Michael D. Casey
Chairman and Chief Executive Officer

carter's, inc.

3438 Peachtree Road NE
Atlanta, GA 30326

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the 2016 Annual Meeting of Shareholders of Carter's, Inc. (the "Annual Meeting") will be held at 8:00 a.m. on May 11, 2016 at our offices located at 3438 Peachtree Road NE, Atlanta, Georgia 30326. The business matters for the Annual Meeting are as follows:

1) The election of three Class I directors;

2) An advisory approval of executive compensation (the "say-on-pay" vote);

3) Approval of the Company's Amended and Restated Equity Incentive Plan;

4) Approval of the Company's Amended and Restated Annual Incentive Compensation Plan;

5) The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2016; and

6) Any other business that may properly come before the meeting.

Shareholders of record at the close of business on March 21, 2016 are entitled to receive notice of, attend, and vote at the Annual Meeting. Your vote is very important. Whether or not you plan to attend the Annual Meeting, to ensure that your shares are represented at the Annual Meeting, please complete, sign, date, and return the proxy card in the envelope provided, submit your voting instructions by telephone or online, or follow the instructions you have received from your broker or other nominee.

If you plan to attend the Annual Meeting and are a registered shareholder, please bring the invitation attached to your proxy card. If your shares are registered in the name of a bank or your broker, please bring your bank or brokerage statement showing your beneficial ownership with you to the Annual Meeting or request an invitation by writing to me at the address set forth above.

Important notice regarding the availability of proxy materials for the 2016 Annual Meeting of Shareholders of Carter's, Inc. to be held on May 11, 2016: The proxy materials and the Annual Report to Shareholders are available at http://www.carters.com/annuals

The Board of Directors recommends that you vote FOR each of the proposals identified above.

By order of the Board of Directors,

Michael C. Wu
Senior Vice President, General Counsel & Secretary

Atlanta, Georgia
March 30, 2016

PROXY STATEMENT

TABLE OF CONTENTS

carter's, inc.

GENERAL INFORMATION ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Why am I receiving this proxy statement?

The Board of Directors (the "Board") of Carter's, Inc. ("we," "us," "our," "Carter's," or the "Company") is soliciting proxies for our 2016 Annual Meeting of Shareholders on May 11, 2016 (the "Annual Meeting"). This proxy statement and accompanying proxy card are being mailed on or about April 7, 2016 to shareholders of record as of March 21, 2016, the record date (the "Record Date") for the Annual Meeting.

You are receiving this proxy statement because you owned shares of Carter's common stock on the Record Date and are, therefore, entitled to vote at the Annual Meeting. By use of a proxy, you can vote regardless of whether or not you attend the Annual Meeting. This proxy statement provides information on the matters on which the Board would like you to vote so that you can make an informed decision.

What is the purpose of the Annual Meeting?

The purpose of the Annual Meeting is to address the following business matters:

1. The election of three Class I directors (see page 15);

2. An advisory approval of compensation for our named executive officers ("NEOs") (the "say-on-pay" vote) (see page 40);

3. Approval of the Company's Amended and Restated Equity Incentive Plan (see page 41);

4. Approval of the Company's Amended and Restated Annual Incentive Compensation Plan (see page 47);

5. The ratification of the appointment of PricewaterhouseCoopers LLP ("PwC") as the Company's independent registered public accounting firm for fiscal year 2016 (see page 53); and

6. All other business that may properly come before the meeting.

Proxy

Who is asking for my vote?

The Company is soliciting your proxy on behalf of the Board. The Company is paying for the costs of this solicitation and proxy statement.

Who can attend the Annual Meeting?

All shareholders of record, or their duly appointed proxies, may attend the Annual Meeting. Beneficial holders who hold shares "in street name" may also attend provided they obtain the appropriate documents from their broker or other nominee. As of the Record Date, there were 51,441,101 shares of common stock issued and outstanding.

What are my voting rights?

Each share of common stock is entitled to one vote on each matter submitted to shareholders at the Annual Meeting.

What is the difference between holding shares as a shareholder of record and as a beneficial owner "in street name"?

If your shares are registered directly in your name with the Company's transfer agent, American Stock Transfer & Trust Company, you are considered the shareholder of record for these shares. As the shareholder of record, you have the right to grant your voting proxy directly to the persons listed on your proxy card or vote in person at the Annual Meeting.

If your shares are held in a brokerage account or through another nominee, such as a trustee, you are considered the beneficial owner of shares held "in street name." These proxy materials are being forwarded to you together with a voting instruction card. As a beneficial owner, you have the right to direct your broker or other nominee how to vote, and you are also invited to attend the Annual Meeting. Because you are a beneficial owner and not the shareholder of record, you may not vote your shares in person at the Annual Meeting unless you obtain a proxy from the broker or other nominee that holds your shares. Your broker or other nominee should have provided directions for you to instruct the broker or other nominee on how to vote your shares.

What constitutes a quorum?

A quorum is the minimum number of shares required to be present to transact business at the Annual Meeting. Pursuant to the Company's by-laws, the presence at the Annual Meeting, in person, by proxy, or by remote communication, of the holders of at least a majority of the shares entitled to be voted will constitute a quorum. Broker non-votes and abstentions will be counted as shares that are present at the meeting for purposes of determining a quorum. If a quorum is not present, the meeting will be adjourned until a quorum is obtained.

What is a broker non-vote?

If you are a beneficial owner whose shares are held of record by a broker and you do not provide voting instructions to your broker, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a "broker non-vote." Your broker **only** has discretionary authority to vote on Proposal Number Five. Therefore, your broker will not have discretion to vote on any other proposal unless you specifically instruct your broker on how to vote your shares by returning your completed and signed voting instruction card that your broker will provide you.

What are my choices when casting a vote with respect to the election of Class I directors, and what vote is needed to elect the director nominees?

In voting on the election of Class I directors (Proposal Number One), shareholders may:

1. vote for any of the nominees,
2. vote against any of the nominees, or
3. abstain from voting on any of the nominees.

Pursuant to our by-laws, a nominee must receive the vote of a majority of the shares present and entitled to vote, which means that the number of votes cast "for" a director nominee must exceed the number of votes cast "against" that nominee and votes to "abstain" with respect to that nominee. Any nominee not receiving such majority must turn in his or her resignation for consideration by the Board. Votes to abstain on Proposal Number One will have the practical effect of a vote "against" a director nominee. Broker non-votes will not have an impact on this vote.

What are my choices when casting an advisory vote on approval of compensation of the Company's NEOs, commonly referred to as the "say-on-pay" vote, and what vote is needed to approve this proposal?

In voting on executive compensation (Proposal Number Two), shareholders may:

1. vote for the approval of compensation of the Company's NEOs, on an advisory basis, as described in this proxy statement,

2. vote against the approval of compensation of the Company's NEOs, on an advisory basis, as described in this proxy statement, or

3. abstain from voting on compensation of the Company's NEOs, on an advisory basis, as described in this proxy statement.

Because Proposal Number Two asks for a non-binding, advisory vote, there is no required vote that would constitute approval. We value the opinions expressed by our shareholders in this advisory vote, and our Compensation Committee will consider the outcome of the vote when designing our compensation programs and making future compensation decisions for our NEOs. Abstentions and broker non-votes, if any, will not have any effect on this advisory vote.

What are my choices when voting on whether to approve the Amended and Restated Equity Incentive Plan, and what vote is needed to approve this proposal?

In voting on the Amended and Restated Equity Incentive Plan (the "Equity Incentive Plan") (Proposal Number Three), shareholders may:

1. vote for the Equity Incentive Plan,

2. vote against the Equity Incentive Plan, or

3. abstain from voting for the Equity Incentive Plan.

The Equity Incentive Plan is designed to allow awards granted under it to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. As more fully described in Proposal Number Three, performance-based compensation is not subject to the deduction limits of Section 162(m) if, among other things, the material terms of the plan (including possible performance goals and the maximum amount payable to any covered employee) are approved by shareholders at least once every five years. As a result, the Equity Incentive Plan is being submitted to shareholders for approval at the Annual Meeting.

The approval of Proposal Number Three requires the affirmative vote of a majority of the votes properly cast at our Annual Meeting. Abstentions and broker non-votes will not affect the outcome of this proposal.

What are my choices when voting on whether to approve the Amended and Restated Annual Incentive Compensation Plan, and what vote is needed to approve this proposal?

In voting on the Amended and Restated Equity Annual Incentive Compensation Plan (the "Incentive Compensation Plan") (Proposal Number Four), shareholders may:

1. vote for the Incentive Compensation Plan,

2. vote against the Incentive Compensation Plan, or

3. abstain from voting for the Incentive Compensation Plan.

The Incentive Compensation Plan, similar to the Equity Incentive Plan, is designed to allow awards granted under it to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. As more fully described in Proposal Number Four, performance-based compensation is not subject to the deduction limits of Section 162(m) if, among other things, the material terms of the plan (including possible performance goals and the maximum amount payable to any covered employee) are approved by shareholders at least once every five years. As a result, the Incentive Compensation Plan is also being submitted to shareholders for approval at the Annual Meeting.

The approval of Proposal Number Four requires the affirmative vote of a majority of the votes properly cast at our Annual Meeting. Abstentions and broker non-votes will not affect the outcome of this proposal.

What are my choices when voting on the ratification of the appointment of PwC as the Company's independent registered public accounting firm for fiscal 2016, and what vote is needed to approve this proposal?

In voting on the ratification of PwC (Proposal Number Five), shareholders may:

1. vote to ratify PwC's appointment,

2. vote against ratifying PwC's appointment, or

3. abstain from voting on ratifying PwC's appointment.

The approval of Proposal Number Five requires the affirmative vote of a majority of the votes properly cast at our Annual Meeting. Abstentions will not affect the outcome of this proposal. A broker or other nominee will generally have discretionary authority to vote on this proposal because it is considered a routine matter, and, therefore, we do not expect broker non-votes with respect to this proposal.

How does the Board recommend that I vote?

The Board recommends a vote:

FOR the election of the nominees for Class I directors (Proposal Number One);

FOR the approval of the compensation of the Company's NEOs as described in this proxy statement (Proposal Number Two);

FOR the approval of the Equity Incentive Plan (Proposal Number Three);

FOR the approval of the Incentive Compensation Plan (Proposal Number Four); and

FOR the ratification of the appointment of PwC (Proposal Number Five).

How do I vote?

If you are a shareholder of record, you may vote in one of four ways. First, you may vote online by completing the voting instruction form found at www.proxyvote.com. You will need your proxy card when voting online. Second, you may vote by touch-tone telephone by calling 1-800-690-6903. Third, you may vote by mail by signing, dating, and mailing your proxy card in the enclosed envelope. Fourth, you may vote in person at the Annual Meeting.

If your shares are held in a brokerage account or by another nominee, these proxy materials are being forwarded to you together with a voting instruction card from your broker or nominee. Follow the instructions on the voting instruction card in order to vote your shares by proxy or in person.

Can I change my vote after I return my proxy card?

Yes. Even after you have submitted your proxy card, you may change or revoke your vote at any time before your proxy votes your shares by submitting written notice of revocation to Michael C. Wu, Senior Vice

President, General Counsel, and Secretary of Carter's at the Company's address set forth in the 2016 Notice of Annual Meeting, or by submitting another proxy card bearing a later date. Alternatively, if you have voted by telephone or online, you may change your vote by calling 1-800-690-6903 and following the instructions. The powers granted by you to the proxy holders will be suspended if you attend the Annual Meeting in person, although attendance at the Annual Meeting will not by itself revoke a previously granted proxy.

If you hold your shares through a broker or other custodian and would like to change your voting instructions, please review the directions provided to you by that broker or custodian.

May I vote confidentially?

Yes. Our policy is to keep your individual votes confidential, except as appropriate to meet legal requirements, to allow for the tabulation and certification of votes, or to facilitate proxy solicitation.

Who will count the votes?

A representative of Broadridge Financial Solutions, Inc. will count the votes and act as the inspector of election for the Annual Meeting.

What happens if additional matters are presented at the Annual Meeting?

As of the date of this proxy statement, the Board knows of no matters other than those set forth herein that will be presented for determination at the Annual Meeting. If, however, any other matters properly come before the Annual Meeting and call for a vote of shareholders, the Board intends proxies to be voted in accordance with the judgment of the proxy holders.

Where can I find the voting results of the Annual Meeting?

We intend to announce preliminary voting results at the Annual Meeting and publish final results in our current report on Form 8-K within four business days after the Annual Meeting.

What is "householding" of the Annual Meeting materials?

The U.S. Securities and Exchange Commission (the "SEC") has adopted rules that permit companies and intermediaries, such as brokers, to satisfy delivery requirements for proxy statements with respect to two or more shareholders sharing the same address by delivering a single proxy statement to those shareholders. This process, which is commonly referred to as "householding," potentially provides extra convenience for shareholders and cost savings for companies. The Company and some brokers "household" proxy materials, delivering a single proxy statement and annual report to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, or if you are receiving multiple copies of the proxy statement and annual report and wish to receive only one, please notify your broker if your shares are held in a brokerage account, or the Company if you hold shares registered directly in your name. You can notify the Company by sending a written request to Mr. Wu at the Company's address set forth in the 2016 Notice of Annual Meeting or by calling us at (678) 791-1000.

How may I obtain a copy of the Company's Annual Report?

A copy of our fiscal 2015 Annual Report on Form 10-K (the "Annual Report") accompanies this proxy statement and is available at http://www.carters.com/annuals. Shareholders may also obtain a free copy of our

Annual Report by sending a request in writing to Mr. Wu at the Company's address set forth in the 2016 Notice of the Annual Meeting or by calling us at (678) 791-1000.

When are shareholder proposals due for consideration in next year's proxy statement or at next year's Annual Meeting?

A proposal for action to be presented by any shareholders at the 2017 annual meeting of shareholders will be acted upon only:

- if the proposal is to be included in the proxy statement, pursuant to Rule 14a-8 under the U.S. Exchange Act of 1934 (the "Exchange Act"), the proposal is submitted in writing to Mr. Wu at the Company's address set forth in the 2016 Notice of Annual Meeting and received on or before December 8, 2016; or

- if the proposal is not to be included in the proxy statement, pursuant to our by-laws, the proposal is submitted in writing in the same manner specified above no earlier than January 10, 2017, and no later than February 11, 2017.

There are additional requirements under our by-laws and the proxy rules to present a proposal, including continuing to own a minimum number of shares of our stock until next year's annual meeting and appearing in person at the annual meeting to explain your proposal.

What do you mean by fiscal years in this proxy statement?

Our fiscal year ends on the Saturday, in December or January nearest the last day of December, resulting in an additional week of results every five or six years. For instance, fiscal 2016, which will end on December 31, 2016, will contain 52 weeks. Fiscal 2015, which ended on January 2, 2016, contained 52 weeks. Fiscal 2014, which ended on January 3, 2015, contained 53 weeks. Fiscal 2013, which ended on December 28, 2013, contained 52 weeks.

Who can help answer my questions?

If you have any questions about the Annual Meeting or how to submit or revoke your proxy, or to request an invitation to the Annual Meeting, contact Mr. Wu at the Company's address set forth in the 2016 Notice of Annual Meeting or by calling us at (678) 791-1000.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION

Board of Directors

Our Board currently consists of nine directors and is divided into three classes, with the nominees for one class to be elected at each annual meeting of shareholders, to hold office for a three-year term and until successors of the members of such class have been elected and qualified, subject to their earlier death, resignation, or removal.

The Board believes that each director, including the nominees for election as Class I directors (Proposal Number One), has valuable skills and experiences that, taken together, provide the Company with the variety and depth of knowledge, judgment, and strategic vision necessary to provide effective oversight of the Company's business operations. Our directors have extensive experience, both domestically and internationally, in different fields, including apparel and retail, brand marketing, logistics and technology, global sourcing, and finance and accounting.

The Board also believes that, as indicated in the following biographies, each director has demonstrated significant leadership in positions such as chief executive officers, chief financial officers, division presidents, and other senior executive officers. In addition, many of our directors have significant experience in the oversight of public companies due to their service as directors of Carter's and other companies.

Amy Woods Brinkley became a director in February 2010. Ms. Brinkley is the manager and owner of AWB Consulting, LLC, which provides executive advisory and risk management consulting services. Ms. Brinkley retired from Bank of America Corporation in 2009 after spending more than 30 years with the company. Ms. Brinkley served as its Chief Risk Officer from 2002 through mid-2009. Prior to 2002, Ms. Brinkley served as President of Bank of America's Consumer Products division and was responsible for the credit card, mortgage, consumer finance, telephone, and eCommerce businesses. Before that, Ms. Brinkley held positions of Executive Vice President and Chief Marketing Officer overseeing Bank of America's Olympic sponsorship and its national rebranding and name change. Ms. Brinkley is currently a director of TD Bank Group, Roper Technologies, Inc., and the Bank of America Charitable Foundation. She also serves as a trustee for the Princeton Theological Seminary and on the board of commissioners for the Carolinas Healthcare System.

Director Qualifications: Ms. Brinkley brings to the Board valuable perspective and insight with respect to finance and accounting, eCommerce, brand marketing, general management experience, and risk management as a result of her years of service in various senior executive positions at Bank of America Corporation. She also possesses leadership and corporate governance experience attained through her service with TD Bank, Roper Technologies, Inc., Princeton Theological Seminary, and the Carolinas Healthcare System.

Michael D. Casey became a director in August 2008 and was named Chairman of the Board of Directors in August 2009. Mr. Casey joined the Company in 1993 as Vice President of Finance. Mr. Casey was named Senior Vice President of Finance in 1997, Senior Vice President and Chief Financial Officer in 1998, Executive Vice President and Chief Financial Officer in 2003, and Chief Executive Officer in 2008. Prior to joining the Company, Mr. Casey worked for Price Waterhouse LLP, a predecessor firm to PwC, from 1982 to 1993. He also presently serves on the board of directors of The Fresh Market, Inc.

Director Qualifications: Mr. Casey brings to the Board valuable perspective and insight with respect to our business, industry, challenges, and opportunities as a result of his years serving in a variety of senior executive positions at the Company. Mr. Casey also represents management's perspective on important matters to the Board. His service as a director of The Fresh Market also has provided him with additional insight into the corporate governance of retail companies.

Vanessa J. Castagna became a director in November 2009. Ms. Castagna served as Executive Chairwoman of Mervyn's, LLC from 2005 until 2007. Ms. Castagna previously served as Chairwoman and Chief Executive Officer of JCPenney Stores, Catalog and Internet for J.C. Penney Company, Inc. from 2002 through 2004. While at JCPenney, Ms. Castagna also served as its Chief Operating Officer from 1999 to 2002. Prior to that, Ms. Castagna held various senior-level merchandising positions at Target, Walmart, and Marshall's. Ms. Castagna served as a director of Levi Strauss & Co. from 2007 until 2015 and currently serves on the board of trustees of Purdue University.

Director Qualifications: Ms. Castagna brings to the Board over 30 years of experience in the retail industry, and with her executive-level service to Mervyn's, JC Penney, and Walmart, has valuable perspective and insight with respect to the apparel and retail industry, merchandising, and brand marketing. Her experience as a director of Levi Strauss & Co. and as a trustee of Purdue University provides the Board with a valuable understanding and a unique perspective on governance matters.

A. Bruce Cleverly became a director in March 2008. Mr. Cleverly retired as President of Global Oral Care from Procter & Gamble Company/The Gillette Company in September 2007, a position he held since 2005. Mr. Cleverly joined The Gillette Company in 1975 as a Marketing Assistant and held positions of increasing responsibility in brand management and general management in the United States, Canada, and the United Kingdom. In 2001, Mr. Cleverly became President of Gillette's worldwide Oral Care business. In October 2005, Mr. Cleverly became President of The Procter & Gamble Company's Global Oral Care division. Mr. Cleverly is a director of Rain Bird Corporation, Shaser BioScience, Inc., and WaterPik, Inc.

Director Qualifications: Mr. Cleverly brings to the Board extensive experience in general management, consumer products, international operations, brand management, and brand marketing, after spending over 30 years at Procter & Gamble Company and The Gillette Company. His thorough understanding and appreciation for the corporate governance of the Board can be seen through his service on the above-listed boards of directors.

Jevin S. Eagle became a director in July 2010. Mr. Eagle served as Chief Executive Officer and director of DavidsTea Inc., a specialty tea retailer in the U.S. and Canada, from April 2012 to April 2014. Mr. Eagle previously held several senior leadership positions at Staples, Inc. from 2002 to 2012, including Executive Vice President, Merchandising and Marketing. Prior to joining Staples, Mr. Eagle worked for McKinsey & Company, Inc. from 1994 to 2001, eventually becoming a partner in the firm's retail practice.

Director Qualifications: Mr. Eagle brings to the Board broad experience in a number of areas, as the former Chief Executive Officer and director of DavidsTea and Executive Vice President, Merchandising and Marketing of Staples, including retail, management, merchandising, strategic planning, and brand marketing. His experience in the retail industry provides our Board with critical insights.

Paul Fulton became a director in May 2002. Mr. Fulton retired as President of Sara Lee Corporation in 1993 after spending 34 years with the company. He is currently non-executive chairman of the board of directors of Bassett Furniture Industries, Inc. and a director of Premier Commercial Bank. Mr. Fulton was previously a director of Bank of America Corporation, where he served from 1993 to 2007, Lowe's Companies, Inc., where he served from 1996 to 2007, and Sonoco Products Company, Inc., where he served from 1989 to 2005.

Director Qualifications: Mr. Fulton brings to the Board valuable perspective and insight with respect to the retail industry, executive compensation, and management as the former President of Sara Lee Corporation and current non-executive chairman of the board of Bassett Furniture Industries, Inc. His service as a director of Bank of America, Lowe's Companies, and Sonoco Products demonstrates his thorough understanding of the operations and corporate governance of large public companies.

William J. Montgoris became a director in August 2007. Mr. Montgoris retired as Chief Operating Officer of The Bear Stearns Companies, Inc. in 1999, a position he held since August 1993, after spending 20 years with the company. While at Bear Stearns, Mr. Montgoris also served as the company's Chief Financial Officer from

April 1987 until October 1996. Mr. Montgoris currently serves as the non-executive chairman of the board of directors of Stage Stores, Inc. Mr. Montgoris is also a trustee of Colby College. Mr. Montgoris was previously a director of OfficeMax Incorporated, where he served from July 2007 to November 2013.

Director Qualifications: Mr. Montgoris brings to the Board valuable perspective and insight with respect to finance and accounting after spending over 20 years in the investment banking industry. Mr. Montgoris' financial expertise offers our Board a deep understanding of financial and audit-related matters. As chairman of the board of directors for Stage Stores, Mr. Montgoris also brings valuable insight with respect to the retail apparel industry and the oversight of public companies.

David Pulver became a director in January 2002. Mr. Pulver has been a private investor for more than 25 years and is the President of Cornerstone Capital, Inc. Mr. Pulver was previously a director of Hearst-Argyle Television, Inc., where he served from 1997 through 2009 and Costco Wholesale Corporation, where he served from 1983 through 1993. Mr. Pulver currently serves as a trustee of Colby College and as a director of the Bladder Cancer Advocacy Network. Mr. Pulver was a founder of The Children's Place, Inc. and served as its Chairman and Co-Chief Executive Officer until 1982.

Director Qualifications: Mr. Pulver brings to the Board valuable perspective and insight with respect to children's apparel and the retail industry as a founder and former Chairman and Co-Chief Executive Officer of The Children's Place. Mr. Pulver's former and current service on various boards of directors has given him valuable experience with respect to finance and accounting, management, and oversight of public companies.

Thomas E. Whiddon became a director in August 2003. Mr. Whiddon retired as Executive Vice President-Logistics and Technology of Lowe's Companies, Inc. in March 2003, a position he held since 2000. From 1996 to 2000, Mr. Whiddon served as Lowe's Chief Financial Officer. Since his retirement, Mr. Whiddon has worked as a consultant, serving various companies in executive capacities on an interim basis. Mr. Whiddon is currently a director of Sonoco Products Company, Inc., Dollar Tree Stores, Inc., and BayCare Health System.

Director Qualifications: Mr. Whiddon brings to the Board valuable perspective and insight with respect to management, logistics, technology, and finance and accounting through his many years of experience in the retail industry. His service on the above-listed boards of directors demonstrates his thorough understanding of corporate governance matters. Also, Mr. Whiddon's financial expertise offers our Board a deep understanding of audit-related matters.

Board Leadership Structure

The Company's Corporate Governance Principles provide that the positions of Chairman of the Board of Directors and Chief Executive Officer may be combined if the non-management directors determine it is in the best interest of the Company. In August 2009, the non-management directors appointed Mr. Casey Chairman of the Board. The Board believes it is appropriate to continue to combine the positions of the Chairman and Chief Executive Officer. Mr. Casey has over 20 years of management, finance, and administrative leadership experience at the Company. In addition, Mr. Casey has extensive knowledge of, and experience with, all other aspects of the Company's business, including with its employees, customers, vendors, and shareholders. Having Mr. Casey serve as both Chairman and Chief Executive Officer helps promote unified leadership and direction for both the Board and management.

In connection with Mr. Casey's appointment as Chairman, the non-management directors also created the position of Lead Independent Director ("Lead Director") and appointed Mr. Whiddon to serve in that role. The non-management directors created the Lead Director position to, among other things, ensure that the non-management directors maintain proper oversight of management and Board process. The responsibilities of the Lead Director include:

- serving as an advisor to the Chief Executive Officer on Board, executive management, and other significant matters;

- serving, as necessary, as a liaison between non-management directors and the Chief Executive Officer;
- together with the Chairman of the Nominating and Corporate Governance Committee, providing annual Board assessment and other feedback to the Chief Executive Officer;
- advising the Chief Executive Officer on the Board's informational needs;
- consulting on Board meeting materials, schedules, and agendas;
- calling and presiding over executive sessions of non-management directors;
- presiding at Board meetings in the absence of the Chairman; and
- after consultation with the Chief Executive Officer, communicating with major shareholders or other interested parties, as appropriate.

Board Meetings

Our Corporate Governance Principles require Carter's to have at least four regularly scheduled Board meetings each year, and each director is expected to attend each meeting. The Board met four times during fiscal 2015. In fiscal 2015, no director participated in less than 75% of the aggregate number of all of the Board and applicable committee meetings. Although the Company does not have a policy regarding director attendance at annual meetings, all directors attended the Company's Annual Meeting in fiscal 2015.

Executive Sessions

Executive sessions of non-management directors are held at least four times a year. Any non-management director can request that an additional executive session be scheduled. The Board's Lead Director presides at the executive sessions of non-management directors.

Board Committees

Our Board has the following standing committees: Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. The charters for each committee are available in the Investor Relations section of our website at ir.carters.com or in print by contacting Mr. Wu at the Company's address set forth in the 2016 Notice of Annual Meeting. The Board may also establish other committees to assist in the discharge of its responsibilities. The table below identifies the current committee members and committee chairmen (as indicated by the "C").

Director	Audit	Compensation	Nominating & Corporate Governance
Amy Woods Brinkley	✓	✓	
Vanessa J. Castagna			✓
A. Bruce Cleverly		✓	C
Jevin S. Eagle		✓	
Paul Fulton		C	✓
William J. Montgoris	✓		
David Pulver	C		
Thomas E. Whiddon	✓		✓
Number of Fiscal 2015 Committee Meetings	10	4	5

Audit Committee

The members of our Audit Committee are Ms. Brinkley and Messrs. Montgoris, Pulver, and Whiddon. Mr. Pulver serves as Chairman of the Committee. During fiscal 2015, the Audit Committee held ten meetings. The Audit Committee is responsible for, among other things:

- oversight of quality and integrity of, and risks related to, the consolidated financial statements, including the accounting, auditing, and financial reporting practices of the Company;
- oversight of the Company's internal control over financial reporting;
- oversight of the Company's audit process;
- oversight of the processes, procedures, and capabilities of the Company's enterprise risk management program;
- appointment of the independent auditor and oversight of their performance, including their qualifications and independence;
- oversight of the Company's compliance with legal and regulatory requirements, except to the extent oversight is delegated to other Board committees; and
- oversight of the performance of the Company's internal audit function.

The Audit Committee operates pursuant to a written charter that addresses the requirements of the New York Stock Exchange's ("NYSE") listing standards. The Board has determined that each member of the Audit Committee is independent and meets the financial literacy requirements, each as set forth in the NYSE's listing standards. The Board has also determined that each of Messrs. Montgoris, Pulver, and Whiddon is an "audit committee financial expert" as defined under SEC rules.

The Audit Committee Report is included in this proxy statement on page 52.

Compensation Committee

The members of our Compensation Committee are Ms. Brinkley and Messrs. Cleverly, Eagle, and Fulton. Mr. Fulton serves as Chairman of the Committee. During fiscal 2015, the Compensation Committee held four meetings. The Compensation Committee is responsible for, among other things:

- establishing the Company's philosophy, policies, and strategy relative to executive compensation, including the mix of base salary, short-term and long-term incentive compensation within the context of stated guidelines for compensation relative to peer companies, as determined from time to time by the Compensation Committee;
- evaluating the performance of the Chief Executive Officer and other executive officers relative to approved performance goals and objectives;
- setting the compensation of the Chief Executive Officer and other executive officers based upon the evaluation of performance, market benchmarks, and other factors;
- assisting the Board in developing and evaluating candidates for key executive positions and ensuring a succession plan is in place for the Chief Executive Officer and other executive officers;
- evaluating compensation plans, policies, and programs with respect to executive officers, independent directors, and certain key personnel;

- monitoring and evaluating benefit programs for the Company's executive officers and certain key personnel;

- reviewing and discussing with management, and recommending to the Board for inclusion in the proxy statement, proposals relating to shareholder advisory votes on executive compensation (the "say-on-pay" proposal) and on the frequency of the "say-on-pay" proposal; and

- reviewing and discussing with management the Company's Compensation Discussion and Analysis ("CD&A") and producing an annual report on executive compensation for inclusion in the proxy statement, as applicable.

This year's Compensation Committee Report is included in this proxy statement on page 30.

The CD&A, which begins on page 20, discusses how the Compensation Committee makes compensation-related decisions regarding our NEOs.

The Compensation Committee operates pursuant to a written charter that addresses the requirements of the NYSE's listing standards. The Board has determined that each member of the Compensation Committee is independent as defined in the NYSE's listing standards.

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee serving during fiscal 2015 has been an officer or other employee of the Company. None of our executive officers has served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board.

Nominating and Corporate Governance Committee

The members of our Nominating and Corporate Governance Committee are Ms. Castagna and Messrs. Cleverly, Fulton, and Whiddon. Mr. Cleverly serves as Chairman of the Committee. During fiscal 2015, the Nominating and Corporate Governance Committee held five meetings. The Nominating and Corporate Governance Committee is responsible for, among other things:

- identifying and recommending candidates qualified to become Board members;

- recommending directors for appointment to Board committees; and

- developing and recommending to the Board a set of corporate governance principles and monitoring the Company's compliance with, and effectiveness of, such principles.

The Nominating and Corporate Governance Committee operates pursuant to a written charter that addresses the requirements of the NYSE's listing standards. The Board has determined that each member of the Committee is independent as defined in the NYSE's listing standards.

Consideration of Director Nominees

The Nominating and Corporate Governance Committee regularly assesses the appropriateness of the size of the Board. In the event that vacancies occur or are anticipated, the Committee will consider prospective nominees that come to its attention through current Board members, search firms, or certain shareholders. The Board believes that it is appropriate to limit the group of shareholders who can propose nominees due to time constraints on the Nominating and Corporate Governance Committee. The Committee will consider persons recommended by shareholders who hold more than 1% of our common stock for inclusion as nominees for election to the Board if the names of such persons are submitted to Mr. Wu at the Company's address set forth in the 2016 Notice of Annual Meeting. This submission must be made in writing and in accordance with our by-laws, including mailing the submission in a timely manner, share ownership at the time of the Annual Meeting, and including the nominee's name, address, and qualifications for Board membership.

When evaluating a potential candidate for membership on the Board, including candidates properly submitted by shareholders, the Committee considers each candidate's skills and experience and assesses the needs of the Board and its committees at that point in time. Although the Committee does not have a formal policy on diversity, it believes that diversity is an important factor in determining the composition of the Board, and seeks to have Board members with diverse backgrounds, experiences, and points of view. In connection with its assessment of all prospective nominees, the Committee will determine whether to interview such prospective nominees, and if warranted, one or more members of the Committee, and others as appropriate, will interview such prospective nominees in person or by telephone. Once this evaluation is completed, if warranted, the Committee will provide to the Board, for approval, a list of nominees for election at the Annual Meeting.

Shareholder Communication with Directors

A shareholder or other interested party may submit a written communication to the Board, the Lead Director, or individual non-management directors. The submission must be delivered to Mr. Wu at the Company's address set forth in the 2016 Notice of Annual Meeting.

The Board, the Lead Director, or non-management directors may require the submitting shareholder to furnish such information as may be reasonably required or deemed necessary to sufficiently review and consider the submission of such shareholder.

Each submission will be forwarded, without editing or alteration, to the Board, the Lead Director, or individual non-management directors, as appropriate, at, or prior to, the next scheduled meeting of the Board. The Board, the Lead Director, or individual non-management directors, as appropriate, will determine, in their sole discretion, the method by which such submission will be reviewed and considered.

Risk Oversight

The Company's management is responsible for identifying, assessing, managing, and mitigating the Company's strategic, financial, operational, and compliance risks. The Board is responsible for overseeing risk management of the Company and management's efforts in these areas. The Board exercises direct oversight of strategic risks to the Company and other risk areas not delegated to one of its committees. The Board's Audit Committee is responsible for overseeing the processes, procedures, and capabilities of the Company's enterprise risk management program, risks related to financial statements, financial reporting, and internal controls, as well as compliance with legal and regulatory requirements. The Compensation Committee oversees risks associated with the Company's compensation policies and practices with respect to both executive compensation and compensation generally, as well as compliance with legal and regulatory requirements as they relate to compensation. The Compensation Committee reviews the Company's compensation policies and practices with management to confirm that there are no risks arising from such compensation policies and practices that are reasonably likely to have a material adverse effect on the Company. The Nominating and Corporate Governance Committee is responsible for overseeing compliance with legal and regulatory requirements as such requirements relate to corporate governance, and for overseeing risks related to the Company's social compliance program. The Board and its Committees receive updates from senior management on relevant risks and management efforts in these areas at its Board and Committee meetings at least annually and more frequently, as appropriate.

Corporate Governance Principles and Code of Ethics

The Company is committed to conducting its business with the highest level of integrity and maintaining the highest standards of corporate governance. Our Corporate Governance Principles and Code of Ethics provide the structure within which our Board and management operate the Company. The Company's Code of Ethics applies to all directors and Company employees, including each of the Company's executive officers. Our Corporate Governance Principles and Code of Ethics are available in the Investor Relations section of our website at ir.carters.com or in print by contacting Mr. Wu at the Company's address set forth in the 2016 Notice of Annual Meeting.

Director Independence

The NYSE listing standards and the Company's Corporate Governance Principles require a majority of the Company's directors to be independent from the Company and the Company's management. For a director to be considered independent, the Board must determine that the director has no direct or indirect material relationship with the Company. The Board considers all relevant information provided by each director regarding any relationships each director may have with the Company or management. As a result of this review, our Board has determined that all of our non-management directors are independent and meet the independence requirements under the listing standards of the NYSE, rules and regulations of the SEC, and the Company's Corporate Governance Principles.

PROPOSAL NUMBER ONE
ELECTION OF CLASS I DIRECTORS

The Board proposes that the three Class I director nominees be re-elected to the Board to serve until the Annual Meeting in 2019, or until his or her earlier resignation, death, or removal. Each nominee currently serves as a Class I director. In addition to the three Class I nominees, the Company's current Class II and Class III directors are listed below.

Class I Directors—Terms Expiring at the Annual Meeting

Name	Age
Vanessa J. Castagna	66
William J. Montgoris	69
David Pulver	74

The individuals who will continue to serve as Class II and Class III directors after the Annual Meeting are:

Class II Directors—Terms Expiring at the Annual Meeting in 2017

Name	Age
Amy Woods Brinkley	60
Michael D. Casey	55
A. Bruce Cleverly	70
Jevin S. Eagle	49

Class III Nominees—Terms Expiring at the Annual Meeting in 2018

Name	Age
Paul Fulton	81
Thomas E. Whiddon	63

The Company currently has a vacancy in Class III as a result of Mr. John R. Welch not standing for re-election in 2015. The Company is presently conducting a search for a director to fill this vacancy.

The Board recommends a vote FOR the election of Vanessa J. Castagna, William J. Montgoris, and David Pulver as Class I directors.

Vote Required

Pursuant to our by-laws, a nominee must receive the vote of a majority of the shares present and entitled to vote, which means that the number of votes properly cast "for" a director nominee must exceed the combined number of votes cast "against" that nominee and votes to "abstain" with respect to that nominee for that nominee to be elected. Abstentions and broker non-votes will be counted towards a quorum, and abstentions will have the practical effect of a vote "against" a director nominee. Any nominee who does not receive a majority of votes cast "for" his or her election is required to tender his or her resignation. The Nominating and Corporate Governance Committee is then required to make a recommendation to the Board as to whether it should accept or reject such resignation. The Board, taking into account such recommendation, will decide whether to accept such resignation. The Board's decision will be publicly disclosed within ninety (90) days after the results of the election are certified. A director whose resignation is under consideration shall abstain from participating in any recommendation or decision regarding his resignation. If the resignation is not accepted, the director will continue to serve until the next annual meeting of shareholders at which such director faces re-election and until such director's successor is elected and qualified.

COMPENSATION OF DIRECTORS

Each of our non-management directors receives an annual retainer, meeting fees, and an annual equity grant. Each of our committee chairmen and our Lead Director receives an additional annual retainer. With respect to each director who served on the Board in fiscal 2015, each such director's annual retainer was comprised of a $60,000 cash payment and a fully-vested grant of our common stock valued at approximately $130,000. Each director received meeting fees of $2,500 for each regularly scheduled Board meeting, and $1,000 for each regularly scheduled or special meeting of our standing Board committees.

In fiscal 2015, the chairman of our Audit Committee and our Lead Director each received $25,000 cash retainers, and the chairmen of our Compensation and Nominating and Corporate Governance Committees each received $20,000 cash retainers.

We reimburse directors for travel expenses incurred in connection with attending Board and committee meetings and for other expenses incurred while conducting Company business. Mr. Casey receives no additional compensation for serving on the Board. There are no family relationships among any of the directors or our executive officers and none of our non-management directors performed any services for the Company other than services as directors.

The following table provides information concerning the compensation of our non-management directors for fiscal 2015.

FISCAL 2015 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash ($) (a)	Stock Awards ($) (b)	Total ($)
Amy Woods Brinkley	$ 82,000	$130,073	$212,073
Vanessa J. Castagna	$ 75,000	$130,073	$205,073
A. Bruce Cleverly	$ 89,000	$130,073	$219,073
Jevin S. Eagle	$ 74,000	$130,073	$204,073
Paul Fulton	$ 97,000	$130,073	$227,073
William J. Montgoris	$ 80,000	$130,073	$210,073
David Pulver	$105,000	$130,073	$235,073
John R. Welch (c)	$ 49,000	$ 55,016	$104,016
Thomas E. Whiddon	$109,000	$130,073	$239,073

(a) This column reports the amount of cash compensation earned in fiscal 2015 through annual cash retainers and meeting fees.

(b) On May 7, 2015, we issued 1,298 shares of common stock to each non-management director with a grant date fair value of $100.21 per share.

(c) Mr. Welch retired from the Board effective May 7, 2015. The compensation received by Mr. Welch was pro-rated based on his Board service in fiscal 2015.

For complete beneficial ownership information of our common stock for each director, see heading "Securities Ownership of Beneficial Owners, Directors, and Executive Officers" on page 38.

Utilizing data on non-management director compensation from the Company's peer group, as well as considering general industry trends presented by Hay Group, an independent compensation consultant, the Compensation Committee determined to increase non-management director cash retainer compensation from $55,000 to $60,000 for fiscal 2015.

Under the Company's minimum ownership guidelines, no director may sell Company stock unless he or she owns shares of Company stock with a total market value in excess of five times his or her annual cash retainer, or $300,000, by the end of his or her second term of service on the Board. Each of our directors complied with these ownership guidelines in fiscal 2015.

EXECUTIVE OFFICERS' BIOGRAPHICAL INFORMATION AND EXPERIENCE

The following table sets forth the name, age, and position of each of our executive officers as of the date of this proxy statement.

Name	Age	Position
Michael D. Casey	55	Chairman of the Board of Directors and Chief Executive Officer
Brian J. Lynch	53	President
Kevin D. Corning	53	Executive Vice President, International
Julie A. D'Emilio	49	Senior Vice President of Sales
William G. Foglesong	46	Senior Vice President of Marketing
Peter R. Smith	55	Executive Vice President of Supply Chain
Richard F. Westenberger	47	Executive Vice President and Chief Financial Officer
Jeffrey B. Williams	42	Senior Vice President of Retail
Jill A. Wilson	49	Senior Vice President of Human Resources and Talent Development
Michael C. Wu	49	Senior Vice President, General Counsel, and Secretary

Michael D. Casey joined the Company in 1993 as Vice President of Finance. Mr. Casey was named Senior Vice President of Finance in 1997, Senior Vice President and Chief Financial Officer in 1998, Executive Vice President and Chief Financial Officer in 2003, and Chief Executive Officer in 2008. Mr. Casey became a director in 2008 and was named Chairman of the Board of Directors in 2009. Prior to joining the Company, Mr. Casey worked for Price Waterhouse LLP, a predecessor firm to PwC, from 1982 to 1993. He also presently serves on the board of directors of The Fresh Market, Inc.

Brian J. Lynch joined the Company in 2005 as Vice President of Merchandising. Mr. Lynch was named Senior Vice President in 2008, Executive Vice President and Brand Leader for *Carter's* in 2009, and President in 2012. Prior to joining the Company, Mr. Lynch was with The Walt Disney Company in various merchandising, brand management, and strategy roles in the Disney Parks & Resorts division. Prior to Disney, Mr. Lynch worked for Champion Products, a division of Hanesbrands Inc.

Kevin D. Corning joined the Company in 2012 as Executive Vice President, International. From 2008 to 2012, Mr. Corning served as a General Manager in the Luxury & Lifestyle division of DKSH, a leading market expansion services company, where he was responsible for the manufacturing, marketing, and retail distribution of leading brands in Asia, including *Levi's* and *Dockers*. From 2005 to 2007, Mr. Corning served as President of Masterfoods Brazil, a division of Mars, Incorporated. Mr. Corning started his career with Kraft Foods, Inc. and also worked for Nike, Inc. in various management positions, including country general manager roles in Chile and Brazil.

Julie A. D'Emilio joined the Company in 2006 as Vice President of Sales. In 2013, Ms. D'Emilio was named Senior Vice President of Sales. Prior to joining the Company, Ms. D'Emilio was with Calvin Klein Jeans, a division of The Warnaco Group, Inc., in various management positions, including Executive Vice President of Juniors and Girls, and Vice President of the Women's Division. Ms. D'Emilio began her career with Liz Claiborne, Inc. and also worked for London Fog Industries, Inc. and Jones Apparel Group, a predecessor of The Jones Group, Inc.

William G. Foglesong joined the Company in 2010 as Senior Vice President of Marketing, with responsibility for marketing and eCommerce. From 2008 to 2010, Mr. Foglesong was the Vice President of Marketing and Direct-To-Consumer at Spanx, Inc., a leading woman's apparel company. From 2002 to 2008, Mr. Foglesong worked at The Home Depot, Inc. where he held various management positions, including General Manager of Home Depot Direct. Mr. Foglesong started his career with the General Electric Company and gained additional experience at The Boston Consulting Group where he focused on building internet strategies for his clients.

Peter R. Smith joined the Company in 2015 as Executive Vice President of Supply Chain. From 2006 to 2015, Mr. Smith was with V.F. Corporation, serving most recently as Vice President, Supply Chain, EMEA & APAC based in Switzerland and previously as Senior Vice President, Supply Chain, VF Sportswear Coalition based in New York. Mr. Smith began his career at Phillips-Van Heusen Corporation and also worked for London Fog Industries, Inc. in various management positions, including Chief Operations Officer and President of London Fog Retail, Pacific Trail Outerwear and other roles in planning, operations, and business systems.

Richard F. Westenberger joined the Company in 2009 as Executive Vice President and Chief Financial Officer. Mr. Westenberger's responsibilities include management of the Company's finance and information technology functions. Prior to joining the Company, Mr. Westenberger served as Vice President of Corporate Finance and Treasurer of Hewitt Associates, Inc. from 2006 to 2008. From 1996 to 2006, Mr. Westenberger held various senior financial management positions at Sears Holdings Corporation and its predecessor organization, Sears, Roebuck and Co., including Senior Vice President and Chief Financial Officer of Lands' End, Inc., Vice President of Corporate Planning & Analysis, and Vice President of Investor Relations. Prior to Sears, Mr. Westenberger was with Kraft Foods, Inc. He began his career at Price Waterhouse LLP, a predecessor firm to PwC, and is a certified public accountant.

Jeffrey B. Williams joined the Company in 2004 as Director of Supply Chain. Mr. Williams was named Vice President of Inventory Management in 2004, Vice President of Operations in 2006, Senior Vice President, Retail Planning and Allocation in 2007, Senior Vice President, Retail Operations and Strategy in 2011, and Senior Vice President of Retail in 2012. Prior to joining the Company, Mr. Williams served in various positions at The Home Depot, Inc. and Bain & Company.

Jill A. Wilson joined the Company in 2009 as Vice President of Human Resources. In 2010, Ms. Wilson was named Senior Vice President of Human Resources and Talent Development. Ms. Wilson joined the Company after more than 20 years with The May Company and Macy's. While at Macy's, Ms. Wilson held various human resource positions of increasing responsibility, including Group Vice President of Human Resources. Ms. Wilson has extensive experience in a broad range of human resource disciplines to include global talent management, organizational development, learning and development, compensation, benefits, talent acquisition, and integration.

Michael C. Wu joined the Company in 2014 as Senior Vice President, General Counsel, and Secretary. From 2006 to 2014, Mr. Wu served as General Counsel and Secretary of Rosetta Stone Inc. From 1999 to 2006, Mr. Wu served in several legal and executive positions with Teleglobe International Holdings Ltd., a publicly traded company, including as Vice President and General Counsel. Prior to joining Teleglobe, Mr. Wu was a Senior Counsel for Global One Communications LLC, a joint venture between Deutsche Telekom, France Telecom, and Sprint. Mr. Wu also previously worked at Baker Botts, LLP and a firm which eventually merged into Morgan, Lewis & Bockius LLP.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis, or CD&A, is intended to provide information regarding the Company's executive compensation program and practices. This CD&A covers a variety of topics, including the Company's compensation philosophy regarding executive compensation, the role of our Compensation Committee in setting compensation of our executive officers, including our NEOs, and our executive compensation decisions for fiscal 2015.

Our NEOs for fiscal 2015 were:

- Michael D. Casey, Chairman and Chief Executive Officer;
- Richard F. Westenberger, Executive Vice President and Chief Financial Officer;
- Brian J. Lynch, President;
- Kevin D. Corning, Executive Vice President, International; and
- Michael C. Wu, Senior Vice President, General Counsel, and Secretary.

Each of our NEOs was employed by the Company in their respective roles for all of fiscal 2015.

Executive Compensation Highlights for 2015

The Compensation Committee believes that our executive compensation program is appropriately designed to attract and retain superior executive talent and also to drive performance. After review of various factors, including our financial performance, the Compensation Committee took the following actions, among others, with respect to fiscal 2015 compensation for our NEOs:

- reviewed the peer group used by the Compensation Committee as a source of comparative compensation data in 2015, and made certain changes to the peer group as described below;
- paid out annual cash incentive compensation at 112% of target based on the level of achievement of the Company's 2015 goals for performance in net sales, adjusted EBIT, adjusted EPS, and certain additional business objectives, each as described below; and
- approved grants of stock options and time-based and performance-based restricted shares.

Compensation Governance

What We Do:	What We Do Not Do
☑ **Align Pay with Company Performance**: A significant portion of our NEOs' total direct compensation is linked to Company performance in the form of incentive compensation and long-term performance stock. ☑ **Retain an Independent Compensation Consultant**: The Compensation Committee retains an independent consultant to advise it on executive and director compensation matters and to help analyze comparative compensation data to confirm that the design and pay levels of our compensation program are consistent with market practices. ☑ **Utilize Stock Ownership Guidelines**: We have stock ownership guidelines for our executive officers to encourage our executives to maintain a meaningful equity interest in the Company in order to more closely align executives' interests with those of our shareholders in general. ☑ **Utilize Equity Retention Guidelines**: Our equity retention policy for executive officers requires holding periods for time-based restricted stock and time-based stock option grants. ☑ **Have Double-Trigger Cash Severance Arrangements in the Event of a Change of Control**: Our severance agreements with our NEOs provide for cash severance benefits to be paid only if there is a qualifying termination in connection with a change of control.	☒ **No Guaranteed Annual Salary Increases or Guaranteed Bonuses** ☒ **No Re-Pricing of Stock Options Without Shareholder Approval** ☒ **No Hedging, Pledging, or Short Sales of Company Stock** ☒ **No Special Perquisites Provided on an Annual Basis to Our NEOs** ☒ **No Equity Grants Below 100% Fair Market Value**

Compensation Philosophy

The Company is committed to achieving long-term, sustainable growth and increasing shareholder value. Our compensation philosophy is to set our NEOs' total direct compensation at levels that will attract, motivate, and retain superior executive talent in a highly competitive environment. The Company's compensation program for our NEOs is designed to support these objectives and encourage strong financial performance on an annual and long-term basis, without encouraging excessive risks, by linking a significant portion of our NEOs' total direct compensation to Company performance in the form of incentive compensation and long-term performance stock. The principal components of the compensation structure for our NEOs are base salary, annual cash incentive compensation, and long-term equity incentive compensation. Together, the Company refers to these three components as total direct compensation.

Say-on-Pay Results

At the 2015 annual meeting of shareholders, over 99% of the votes cast were in favor of the advisory vote to approve executive compensation. While this vote was advisory and not binding, the Compensation Committee carefully considered the result of the say-on-pay vote in the context of our overall compensation philosophy, as well as our compensation policies and decisions. After reflecting on the say-on-pay vote, our Compensation

Committee decided that no changes to the 2015 compensation philosophy were necessary. At this year's Annual Meeting, the Company plans to again hold an annual advisory vote to approve executive compensation (Proposal Number Two). The Compensation Committee plans to continue to consider the results from this year's and future advisory votes on executive compensation.

Role of the Compensation Committee, Independent Consultant and Management

Our Compensation Committee sets the total direct compensation of our NEOs. Our Compensation Committee also sets the financial performance targets for our NEOs' annual cash incentive compensation and vesting terms for their equity awards, including performance-based awards. Our Compensation Committee has engaged Hay Group, an independent compensation consultant, to advise it on executive and director compensation matters. Hay Group also assists the Committee in gathering and analyzing comparative compensation data both from among the companies in Hay Group's Retail Industry Executive and Management Total Remuneration Survey and from our peer group, each as described in more detail below. With the goal of maintaining the effectiveness of our executive compensation program, and to keep it consistent with our compensation philosophy, our Compensation Committee reviews the reasonableness of compensation for our executive officers, including our NEOs, and compares it with compensation data from Hay Group's retail survey, as described below, and our peer group.

Hay Group serves at the discretion of the Compensation Committee and regularly attends executive sessions with the Compensation Committee. At the direction of the Compensation Committee, our Chief Executive Officer works with Hay Group to review comparative compensation data and makes recommendations for base salary, annual cash incentive compensation, and long-term equity incentive compensation for our NEOs, other than himself. Compensation for our Chief Executive Officer is set by the Compensation Committee, without any involvement by the Chief Executive Officer, based on recommendations made by Hay Group. The Compensation Committee has assessed the independence of Hay Group pursuant to the SEC's rules and has determined that the work provided by Hay Group did not raise a conflict of interest.

Factors Used in Determining Executive Compensation

In setting compensation of all NEOs, our Compensation Committee takes into account multiple objective and subjective factors, including:

- the nature and scope of each executive's responsibilities;
- comparative compensation data for executives in similar positions at companies in Hay Group's retail survey and in our peer group, as described below;
- each executive's experience, performance, and contribution to the Company;
- the Company's performance;
- prior equity awards and potential future earnings from equity awards;
- retention needs; and
- any other factors the Compensation Committee deems relevant.

The Retail Survey and Peer Group Analysis

The survey conducted by Hay Group is comprised of 139 companies in the retail and wholesale industry and provides comparable compensation information by controlling for differences in companies' revenue size and in the scope of responsibility of different executives. Beginning in August 2012, the Compensation Committee, at the advice of Hay Group, began using a subset of Hay Group's survey for executive compensation market assessment. For fiscal 2015, this subset included 44 companies ("Retail Survey" as listed in Appendix A). The Compensation Committee believes that these companies are engaged in businesses more similar to the Company's business than the other companies in Hay Group's survey because they are largely apparel and related products retailers or department stores who primarily sell apparel and related products. In addition, our Compensation Committee has established a peer group, which is generally comprised of companies in the retail or wholesale industries that primarily conduct business in apparel or related accessories, sell products under multiple brands through retail and outlet stores, and have net sales generally between one-half and two times the Company's net sales. For the Company's fiscal 2015 analysis, our peer group was comprised of the following fourteen companies:

Aéropostale, Inc.	Columbia Sportswear Company
American Eagle Outfitters, Inc.	Fossil Group, Inc.
Ann Inc.	Guess?, Inc.
Ascena Retail Group, Inc.	Hanesbrands Inc.
Chico's FAS, Inc.	Quiksilver, Inc.
The Children's Place, Inc.	Under Armour, Inc.
Coach, Inc.	Urban Outfitters, Inc.

In August 2015, our Compensation Committee conducted with Hay Group its annual review of our peer group and determined, based on the criteria established for inclusion in the peer group, to remove Aéropostale, Inc., Ann Inc., and Quiksilver, Inc. from our peer group and add Abercrombie & Fitch Co., DSW Inc., Lands' End, Inc., and Ulta Salon, Cosmetics, and Fragrance, Inc.

Total Direct Compensation

In setting a total direct compensation target for each NEO, our Compensation Committee considers both objective and subjective factors set forth above, as well as prior equity awards, potential future earnings from equity awards, and retention needs. The Compensation Committee also reviews total direct compensation, and its individual components, at the 25th, 50th, and 75th percentile levels paid to executives in similar positions at the companies in the Retail Survey and our peer group to understand where the compensation it sets falls relative to the market practices. These levels were selected because the Compensation Committee reviews this peer data as a reference point in determining whether the total compensation opportunity is likely to provide sufficient motivation and retention as well as whether it properly reflects the NEO's role and scope of responsibilities relative to the companies in the Retail Survey and our peer group. The Compensation Committee chose the actual amount of each element of compensation and the total compensation opportunity of each NEO based, in part, on its review of data for the companies in the Retail Survey and our peer group, and in part, on the factors discussed above under the heading "Factors Used in Determining Executive Compensation" and below in respect of actual compensation decisions for fiscal 2015.

Throughout fiscal 2015, our Compensation Committee reviewed compensation data from the Retail Survey and our peer group to compare the compensation of our NEOs.

Base Salary

When setting base salaries for our NEOs, our Compensation Committee considers the subjective and objective factors set forth above and also reviews base salaries at the 25th, 50th, and 75th percentile levels paid to executives in similar positions at the companies in the Retail Survey and our peer group, as appropriate.

Utilizing base salary data from the Retail Survey and, with respect to Messrs. Casey, Westenberger, and Lynch, base salary data for the Company's peer group, as well as making adjustments in light of the objective and subjective factors discussed above, the Committee determined to increase base salaries for fiscal 2015 for each of our NEOs, to better align with market competitive levels.

Annual Cash Incentive Compensation

The Company makes annual cash incentive compensation (through our Incentive Compensation Plan) a significant component of our NEOs' targeted total direct compensation in order to motivate our executives to meet and exceed the Company's annual operating plans. For each NEO, our Compensation Committee approves target annual cash incentive compensation as a percentage of such NEO's base salary. In establishing these annual cash incentive compensation targets, the Compensation Committee considers our NEOs' potential total direct compensation in light of the Company's compensation philosophy and comparative compensation data. Our NEOs may also receive special bonuses in recognition of special circumstances or for superior performance.

In February 2015, our Compensation Committee set the following fiscal 2015 annual cash incentive compensation targets for our NEOs: 125% of base salary for Mr. Casey, 100% for Mr. Lynch, 75% for Messrs. Corning and Westenberger, and 50% for Mr. Wu.

The NEOs can earn their annual cash incentive compensation based upon the Company's achievement of financial performance targets pre-determined by the Compensation Committee. In accordance with our Incentive Compensation Plan, for fiscal 2015, the Compensation Committee used three financial performance metrics, plus a target based on the attainment of certain business objectives to determine the amount, if any, of annual cash incentive compensation to be paid under our Incentive Compensation Plan: net sales (weighted at 20%); earnings before interest and taxes ("EBIT"), adjusted, if applicable, in the same manner as for presentation to the financial markets (weighted at 30%); earnings per share ("EPS"), adjusted, if applicable, in the same manner as for presentation to the financial markets (weighted at 40%); and the completion of a certain percentage of business objectives determined by the Compensation Committee during its February 2015 meeting (weighted at 10%).

Our Compensation Committee selected net sales, EBIT, EPS, and business objectives as performance metrics because we believe these metrics to be key measures that are aligned with the interests of our shareholders and help to measure the quality of our earnings. The intent of the business objectives is to reward our NEOs for achievement of important strategic initiatives that strengthen the Company's competitive position. At the beginning of fiscal 2015, the Compensation Committee determined a set of objectives it deemed important to the Company's long-term success, and each objective was assigned a target level of performance, which was then judged at the beginning of fiscal 2016 to be either met or not. The Compensation Committee specified six business objectives for fiscal 2015: increase customer net promoter score, grow direct-to-consumer transactions, limit product cost increases, renegotiate an agreement with a certain supplier, achieve planned Canadian retail operating income growth, and launch China eCommerce and develop a strategy for China approved by the Board.

Our Compensation Committee has the discretion to reduce annual cash incentive compensation, even if the Company achieves its financial performance targets, and to take into account personal performance in determining the percentage of each NEO's annual cash incentive compensation to be paid, if any. For example, our Compensation Committee has discretion to reduce future incentive compensation awards based on financial restatements or misconduct. In addition, in accordance with the requirements of the Sarbanes-Oxley Act of 2002, Messrs. Casey and Westenberger are subject to the adjustment, cancellation, or recovery of incentive awards or payments made to them in the event of a financial restatement.

Our NEOs could have earned from 0% to 200% of their target annual cash incentive compensation in fiscal 2015 based upon the Company's achievement of the following targets, weighted at the listed percentages:

	Net Sales ($ in billions) (20%)	EBIT ($ in millions) (30%)	EPS (40%)	Business Objectives (10%)*
25% of Target Annual Cash Incentive Compensation (Threshold)	$2.941	$361.0	$4.01	1
100% of Target Annual Cash Incentive Compensation (Target)	$3.054	$401.0	$4.50	4
200% of Target Annual Cash Incentive Compensation (Maximum)	$3.126	$425.0	$4.75	6
Actual 2015 Performance	$3.014	$401.0	$4.61	4

* Each business objective is weighted equally. At its meeting in February 2015, the Compensation Committee determined the number of objectives required to be met to achieve the Threshold, Target, and Maximum percentages set forth in this table. If less than one objective had been met, our NEOs would have received no cash incentive compensation bonus for this metric.

Based on the Company's fiscal 2015 performance, our NEOs were awarded 112% of their cash incentive compensation targets for fiscal 2015. Actual payouts for the NEOs are shown in the Summary Compensation Table.

Long-Term Equity Incentive Compensation

Our Equity Incentive Plan allows for various types of equity awards, including stock options, restricted stock, restricted stock units, stock appreciation rights, and deferred stock. Awards under our Equity Incentive Plan are granted to recruit, motivate, and retain employees and in connection with promotions or increased responsibility. Historically, our Compensation Committee has awarded time-based stock options, time and performance-based restricted stock, and time-based restricted stock units, although it could use other forms of equity awards in the future.

All awards under our Equity Incentive Plan must be approved by our Compensation Committee. Our Compensation Committee determines the type, timing, and amount of equity awards granted to each of our NEOs after considering their previous equity awards, base salary, and target annual cash incentive compensation in light of the Company's compensation philosophy. Our Compensation Committee also considers the comparative compensation data in the Retail Survey and our peer group, and our desire to retain and motivate our NEOs and to align their goals with the long-term goals of our shareholders. Our Compensation Committee's practice is to approve grants of stock options, restricted stock, and restricted stock units at regularly scheduled meetings. Our Compensation Committee may also make equity grants at special meetings or by unanimous written consent. Our Compensation Committee could select a date subsequent to a regularly scheduled meeting on which to grant equity awards. Our Compensation Committee sets the exercise prices of equity awards at the closing price of our common stock on the NYSE on the date of grant.

In considering the value of equity awards, we calculate the value of stock option awards by using the Black-Scholes option pricing valuation method and the value of time-based and performance-based restricted stock awards equal to the closing price of our common stock on the date of grant.

In February 2015, based on criteria described above, our Compensation Committee approved annual stock option, restricted stock, and performance-based restricted stock grants for each NEO. The following table details the amounts each of our NEOs was granted. A more detailed description of such grants can be seen below in the table "Fiscal 2015 Grants of Plan-Based Awards" and its footnotes.

	Michael Casey	Richard Westenberger	Brian Lynch	Kevin Corning	Michael Wu
Stock Options	28,000	3,400	7,000	3,400	1,760
Restricted Stock	14,000	1,700	3,500	1,700	880
Performance-Based Restricted Stock	28,000	3,400	7,000	3,400	1,760

Each NEO's performance-based restricted shares granted in February 2015 are eligible to vest in fiscal 2018 in varying percentages (between 25% and 150%) if the Company achieves certain growth in EPS (as adjusted for items judged to be non-recurring or unusual in nature), measured from fiscal 2014 to fiscal 2017. Once vested, the performance-based restricted shares granted to Mr. Casey may not be sold for an additional one-year period (except to satisfy tax obligations resulting from vesting of such shares).

All of the time-based stock option and time-based restricted stock awards granted to our NEOs in fiscal 2015 are subject to the equity retention policy described below, contingent on the NEO's continued employment with the Company, and vest in four equal annual installments on the anniversary of the grant date.

Stock Ownership Guidelines and Equity Retention Policy

Our Compensation Committee regularly reviews the equity ownership of our NEOs compared to the Company's minimum ownership guidelines. Under the Company's minimum ownership guidelines, no NEO may sell Company stock (other than to cover the tax obligations resulting from the vesting of Company restricted stock or from exercising vested stock options) unless he owns shares of Company stock with a total market value in excess of a multiple of his base salary and continues to maintain such level of ownership after such sale. For fiscal 2015, the ownership multiples for our NEOs were as follows:

	Multiple of Base Salary
Chief Executive Officer	7x
President	4x
Executive Vice Presidents	3x
Senior Vice Presidents	1x

During fiscal 2015, each of our NEOs was in compliance with his applicable ownership multiple.

Our equity retention policy for NEOs requires that, prior to any sale, any time-based restricted stock granted to an NEO after January 1, 2009 be held for four years following the date of grant, except for any withholding to cover tax obligations resulting from the vesting of such shares. The policy also requires that time-based options granted after January 1, 2009 be held for at least one year from the date of vesting. Further, hedging and pledging of Company stock is prohibited under the Company's policies to ensure that the interests of the holders of Company stock are fully aligned with those of shareholders in general. During fiscal 2015, none of our NEOs hedged or pledged any shares of Company stock. Each NEO is presently in compliance with our equity retention policy.

401(k) Plan

The Company's 401(k) matching program provides Company matching of employee contributions, including contributions by NEOs, at the discretion of the Company, based on the Company's performance. In February 2016, the Company announced that employee contributions made to the Company's 401(k) plan in fiscal 2015 would be matched 100% by the Company for all employees up to the maximum amount permitted by the Internal Revenue Service.

Accounting and Tax Considerations

Accounting, tax, and related financial implications to the Company and our NEOs are considered during the analysis of our compensation and benefits program and individual elements of each. Overall, the Compensation Committee seeks to balance attainment of our compensation objectives with the need to maximize current tax deductibility of compensation that may impact earnings and other measures of importance to shareholders. The Compensation Committee determined that the accounting and tax impacts described below regarding Internal Revenue Code Section 162(m) were reasonable in light of our objectives.

In general, base salary, annual cash incentive bonus payments, and the costs related to benefits and perquisites are recognized as compensation expense at the time they are earned or provided. Share-based compensation expense is recognized in our consolidated statements of operations for stock options, restricted stock, and performance shares.

Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a $1 million limit on the amount that a public company may deduct for compensation paid to a company's principal executive officer and the company's three most highly compensated executive officers, other than its principal financial officer. This limitation generally does not apply to performance-based compensation that is awarded under a plan that is approved by the shareholders of a company and that also meets certain other technical requirements. While the Compensation Committee is mindful of the benefit to our performance of full deductibility of compensation, the Compensation Committee believes that it should not be constrained by the requirements of Section 162(m) of the Internal Revenue Code where those requirements would impair flexibility in compensating our executive officers in a manner that can best promote our corporate objectives. Therefore, the Compensation Committee has not adopted a policy that requires that all compensation be deductible and approval of compensation, including the grant of stock options or other "performance-based compensation" to our executive officers, by the Compensation Committee is not a guarantee of deductibility under the Internal Revenue Code. The Compensation Committee intends to continue to compensate our executive officers in a manner consistent with the best interests of our shareholders.

Severance Agreements with NEOs

Each of our current NEOs has a severance agreement with the Company. In the event that a NEO is terminated by the Company for "cause," retires, becomes disabled, or dies, the executive or his estate will be provided his base salary and medical and other benefits through the termination of his employment.

If a NEO is terminated without "cause," or a NEO terminates for "good reason" (with "cause" and "good reason" defined in each executive's respective agreement and summarized below) the Company will be obligated to pay such executive's base salary for 24 months in the case of Mr. Casey, for 18 months in the case of Mr. Lynch, and for 12 months in the cases of Messrs. Corning, Westenberger, and Wu. In each case, base salary will be paid in bi-weekly installments. The Company is also obligated to pay each NEO a pro-rated annual cash incentive compensation amount that would have been earned by each such executive if he had been employed at the end of the year in which his employment was terminated. The determination of whether an annual cash incentive compensation is payable to the NEO will not take into account any individual performance goals and shall be based solely on the extent to which Company performance goals have been met. Additionally, the Company is obligated to pay the medical, dental, and life insurance benefits for 24 months in the case of Mr. Casey, for 18 months in the case of Mr. Lynch, and for 12 months in the case of Messrs. Corning, Westenberger, and Wu.

In the event that within two years following a "change of control" (with "change of control" defined in each executive's agreement) the Company terminates the NEO's employment, other than for "cause" or such executive terminates his employment for "good reason," the Company shall pay such NEO's base salary, medical, dental, and life insurance benefits for 36 months in the case of Mr. Casey, 30 months in the case of Mr. Lynch, and 24 months in the case of Messrs. Corning, Westenberger, and Wu. In the event of a "change of control" of the Company, all unvested stock options and all unvested shares of restricted stock held by the NEO shall fully vest.

Severance payments made to the NEOs are subject to the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

Under the agreements with each of our NEOs, "cause" is generally deemed to exist when such NEO has: (i) been convicted of a felony or entered a plea of guilty or no contest to a felony; (ii) committed fraud or other act involving dishonesty for personal gain which is materially injurious to the Company; (iii) materially breached his obligations of confidentiality, intellectual property assignment, non-competition, non-solicitation, or non-disparagement against the Company after a cure period, provided such breach by its nature was curable; (iv) willfully engaged in gross misconduct which is injurious to the Company; or (v) after a cure period, willfully refused to substantially perform his duties or is grossly negligent in performance of such duties.

Under the agreements with our NEOs, "good reason" is generally deemed to exist when there is (i) a material reduction in the executive's title, duties, or responsibilities; (ii) a material change in the geographic location at which the executive must perform services; or (iii) a material breach of the executive's agreement by the Company.

Potential Payments Upon Termination or Change of Control

Termination

As described in more detail above under the heading "Severance Agreements with NEOs," we have entered into certain agreements and maintain certain plans that may require us in the future to make certain payments and provide certain benefits in the event of a termination of employment.

For purposes of the table below, a hypothetical termination without "cause" or for "good reason" is assumed to have occurred as of January 2, 2016, the last day of fiscal 2015. The table below indicates the payment and provision of other benefits that would be owed to each of our NEOs as the result of such a termination. There can be no assurance that a termination of employment of any of our NEOs would produce the same or similar results as those set forth below on any other date. The terms "without cause" and "good reason" are defined in the agreements with our executives and summarized above under the heading "Severance Agreements with NEOs."

	Michael Casey	Richard Westenberger	Brian Lynch	Kevin Corning	Michael Wu
Base Salary	$1,920,000	$ 560,000	$1,035,000	$505,000	$412,000
Cash Incentive Compensation (a)	2,692,000	471,100	1,161,000	424,900	231,100
Health and Other Benefits	18,745	9,796	14,062	9,708	419
Total	$4,630,745	$1,040,896	$2,210,062	$939,608	$643,519

(a) Cash incentive compensation calculations are based on cash incentive compensation targets achieved in fiscal 2015 described in more detail under the heading "Annual Cash Incentive Compensation" above.

Change of Control and Termination Following a Change of Control

In the event of a change of control, as that concept is defined under the Company's Equity Incentive Plan and individual awards, all unvested stock options and all unvested shares of restricted stock shall fully vest. In addition, as described in more detail above under the heading "Severance Agreements with NEOs," we have entered into certain agreements that may require us to make certain payments and provide certain benefits to our NEOs in the event of their termination in relation to a change of control (with "change of control" defined in each executive's agreement).

For purposes of the table below, we have assumed that all unvested stock options and all unvested shares of restricted stock have fully vested immediately prior to a change of control on January 2, 2016, the last day of fiscal 2015, and that a termination without "cause" occurred immediately following a change of control on January 2, 2016. The estimated benefit amount of unvested options was calculated by multiplying the number of in-the-money unvested options held by the applicable NEO by the difference between the closing price of our common stock on December 31, 2015, as reported by the NYSE, which was $89.03, and the exercise price of the option. The estimated benefit amount of unvested restricted stock was calculated by multiplying the number of restricted shares held by the applicable NEO by the closing price of our common stock on December 31, 2015, as reported by the NYSE, which was $89.03.

There can be no assurance that a change of control would produce the same or similar results as those set forth below on any other date or at any other price.

	Michael Casey	Richard Westenberger	Brian Lynch	Kevin Corning	Michael Wu
Base Salary	$ 2,880,000	$1,120,000	$1,725,000	$1,010,000	$ 824,000
Cash Incentive Compensation (a)	4,038,000	942,200	1,935,000	849,800	462,200
Health and Other Benefits	28,118	19,593	23,436	19,417	837
Option Value	3,548,853	689,396	1,621,423	378,681	82,532
Restricted Stock Value	13,755,135	1,898,565	3,945,097	2,076,625	591,159
Total	$24,250,106	$4,669,754	$9,249,956	$4,334,523	$1,960,728

(a) Cash incentive compensation calculations are based on cash incentive compensation targets achieved in fiscal 2015 described in more detail under the heading "Annual Cash Incentive Compensation" above.

Perquisites and Other Benefits

Except for the 401(k) matching program, which applies to all employees, our NEOs do not receive any perquisites or other benefits on an annual basis. The cost of providing these benefits and perquisites to the NEOs is included in the amounts shown in the "All Other Compensation" column of the Summary Compensation Table and detailed in the footnotes to such table.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board has reviewed and discussed with Company management the Compensation Discussion and Analysis included in this proxy statement. Based on such review and discussions, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement for filing with the SEC.

Submitted by the Compensation Committee

Mr. Paul Fulton, Chairman
Ms. Amy Woods Brinkley
Mr. A. Bruce Cleverly
Mr. Jevin S. Eagle

FISCAL 2015 SUMMARY COMPENSATION TABLE

The table below provides information concerning the compensation of our NEOs.

In the "Salary" column, we disclose the base salary paid to each of our NEOs during fiscal 2015, 2014, and 2013.

In the "Bonus" column, we disclose the cash bonuses earned during fiscal 2015, 2014, and 2013, other than amounts earned pursuant to the Company's Incentive Compensation Plan, which are reported in the "Non-Equity Incentive Compensation" column.

In the "Stock Awards" and "Option Awards" columns, we disclose the total fair value of the grants made in fiscal 2015, 2014, and 2013, without a reduction for assumed forfeitures. For restricted stock, the fair value is calculated using the closing price on the NYSE of our stock on the date of grant. For time-based and performance-based stock options, the fair value is calculated based on assumptions summarized in Note 9 to our audited consolidated financial statements, which are included in our fiscal 2015 Annual Report on Form 10-K.

In the "Non-Equity Incentive Plan Compensation" column, we disclose the dollar value of all compensation earned in fiscal 2015, 2014, and 2013 pursuant to the Company's Incentive Compensation Plan.

In the "All Other Compensation" column, we disclose the dollar value of all other compensation that could not properly be reported in other columns of the Fiscal 2015 Summary Compensation Table, including perquisites, amounts reimbursed for the payment of taxes, and other payments paid by the Company for the benefit of our NEOs.

Name and Principal Position	Fiscal Year	Salary ($)(a)	Bonus ($) (b)	Stock Awards ($) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($) (e)	Total ($)
Michael D. Casey	2015	$ 949,846	$ —	$3,460,800	$ 687,400	$1,346,000	$159,960	$6,604,006
Chairman of the Board of Directors and	2014	$ 936,000	$ —	$3,082,050	$ 594,000	$1,407,900	$267,150	$6,287,100
Chief Executive Officer	2013	$ 883,654	$ —	$4,445,250	$1,004,273	$1,293,800	$172,400	$7,799,377
Richard F. Westenberger	2015	$ 550,769	$ —	$ 420,240	$ 83,470	$ 471,100	$ 36,766	$1,562,345
Executive Vice President and	2014	$ 545,480	$ —	$ 390,393	$ 75,240	$ 483,000	$ 40,832	$1,534,945
Chief Financial Officer	2013	$ 503,558	$ —	$ 711,240	$ 160,684	$ 444,200	$ 32,860	$1,852,542
Brian J. Lynch	2015	$ 683,846	$ —	$ 865,200	$ 171,850	$ 774,000	$ 62,995	$2,557,891
President	2014	$ 688,253	$ —	$ 770,513	$ 148,500	$ 814,100	$ 61,950	$2,483,316
	2013	$ 650,000	$ —	$1,600,290	$ 361,538	$ 747,500	$ 46,760	$3,406,088
Kevin D. Corning	2015	$ 500,385	$ —	$ 420,240	$ 83,470	$ 424,900	$ 44,526	$1,473,521
Executive Vice President, International	2014	$ 503,942	$ —	$ 390,393	$ 75,240	$ 446,600	$ 44,112	$1,460,287
	2013	$ 475,000		$1,066,860	$ 401,709	$ 409,700	$198,532	$2,551,801
Michael C. Wu	2015	$ 408,308	$ —	$ 217,536	$ 43,208	$ 231,100	$691,287	$1,591,439
Senior Vice President, General Counsel, and Secretary	2014	$ 369,230	$ 100,000	$ 308,205	$ 91,080	$ 243,000	$274,599	$1,386,113

(a) Base salary for each NEO for fiscal 2015 was based on a 364-day fiscal year versus a 370-day fiscal year in 2014 and a 364-day fiscal year in 2013.

(b) Special one-time sign-on bonus awarded to Mr. Wu.

(c) The amounts disclosed in this column represent the total grant date fair value for the following grants:

The time-based restricted stock awards vest in four equal, annual installments following the date of the grant.

Vesting of the performance-based stock awards granted in fiscal 2013 occurred on February 25, 2016. Vesting of the performance-based stock awards granted in fiscal 2014 and 2015 is contingent upon meeting specific performance targets through fiscal 2016 and 2017, respectively. For Mr. Casey, once vested, the performance-based restricted shares granted after 2011 may not be sold for an additional one-year period (except to satisfy tax obligations resulting from vesting of such shares).

Name	Grant Date	Time-Based Restricted Shares	Performance-Based Restricted Shares	Grant Date Fair Value per Share
Michael D. Casey	2/20/2013	25,000	50,000	$59.27
	2/18/2014	15,000	30,000	$68.49
	2/18/2015	14,000	28,000	$82.40
Richard F. Westenberger	2/20/2013	4,000	8,000	$59.27
	2/18/2014	1,900	3,800	$68.49
	2/18/2015	1,700	3,400	$82.40
Brian J. Lynch	2/20/2013	9,000	18,000	$59.27
	2/18/2014	3,750	7,500	$68.49
	2/18/2015	3,500	7,000	$82.40
Kevin D. Corning	2/20/2013	10,000	8,000	$59.27
	2/18/2014	1,900	3,800	$68.49
	2/18/2015	1,700	3,400	$82.40
Michael C. Wu	2/18/2014	2,000	2,500	$68.49
	2/18/2015	880	1,760	$82.40

(d) The amounts disclosed in this column represent the total grant date fair value for the following grants. These time-based stock options vest in four equal, annual installments following the date of the grant. Information concerning how the Company uses the Black-Scholes model to determine the fair value of stock options can be found in Note 9 to the Company's consolidated financial statements included in Item 8 of our Annual Report.

Name	Grant Date	Time-Based Stock Options Granted	Black-Scholes Fair Value	Option Exercise Price
Michael D. Casey	2/20/2013	50,000	$20.09	$59.27
	2/18/2014	30,000	$19.80	$68.49
	2/18/2015	28,000	$24.55	$82.40
Richard F. Westenberger	2/20/2013	8,000	$20.09	$59.27
	2/18/2014	3,800	$19.80	$68.49
	2/18/2015	3,400	$24.55	$82.40
Brian J. Lynch	2/20/2013	18,000	$20.09	$59.27
	2/18/2014	7,500	$19.80	$68.49
	2/18/2015	7,000	$24.55	$82.40
Kevin D. Corning	2/20/2013	20,000	$20.09	$59.27
	2/18/2014	3,800	$19.80	$68.49
	2/18/2015	3,400	$24.55	$82.40
Michael C. Wu	2/18/2014	4,600	$19.80	$68.49
	2/18/2015	1,760	$24.55	$82.40

(e) The amounts shown as "All Other Compensation" for fiscal 2015 consist of the following:

Name	401(k) Company Match	Dividends Paid on Unvested Restricted Stock	Relocation (i)	Gross-ups	Tax Assistance	Total
Michael D. Casey	$24,000	$135,960	$ —	$—	$—	$159,600
Richard F. Westenberger	$18,000	$ 18,766	$ —	$—	$—	$ 36,766
Brian J. Lynch	$24,000	$ 38,995	$ —	$—	$—	$ 62,995
Kevin D. Corning.	$24,000	$ 20,526	$ —	$—	$—	$ 44,526
Michael C. Wu	$18,000	$ 5,843	$667,444	$—	$—	$691,287

(i) Mr. Wu's relocation amount consists solely of the difference between the amount the Company guaranteed as an offer for his former residence as part of his 2014 relocation package based on two independent appraisals and the amount such residence sold for in fiscal 2015, as well as various costs incurred by the Company for the maintenance of such residence prior to its sale in 2015.

FISCAL 2015 GRANTS OF PLAN-BASED AWARDS

The following table provides information concerning each grant of plan-based awards made to each NEO in fiscal 2015. This includes incentive compensation awards granted under our Incentive Compensation Plan and stock option and restricted stock awards granted under our Equity Incentive Plan. The threshold, target, and maximum columns reflect the range of estimated payouts under these plans for fiscal 2015. The exercise price disclosed is equal to the closing market price of our common stock on the date of the grant. The last column reports the aggregate grant date fair value of all awards made in fiscal 2015 as if they were fully vested on the grant date.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a)			Estimated Future Payouts Under Equity Incentive Plan Awards			Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	Award Type	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	($/Sh) (e)	
Michael D. Casey	Cash Incentive Compensation	—	$300,000	$1,200,000	$2,400,000	—	—	—	$ —	$ —
	Shares (b)	2/18/2015	$ —	$ —	$ —	—	14,000	14,000	$ —	$1,153,600
	Shares (c)	2/18/2015	$ —	$ —	$ —	—	28,000	42,000	$ —	$2,307,200
	Options (d)	2/18/2015	$ —	$ —	$ —	—	28,000	28,000	$82.40	$ 687,404
Richard F. Westenberger	Cash Incentive Compensation	—	$105,000	$ 420,000	$ 840,000	—	—	—	$ —	$ —
	Shares (b)	2/18/2015	$ —	$ —	$ —	—	1,700	1,700	$ —	$ 140,080
	Shares (c)	2/18/2015	$ —	$ —	$ —	—	3,400	5,100	$ —	$ 280,160
	Options (d)	2/18/2015	$ —	$ —	$ —	—	3,400	3,400	$82.40	$ 83,470
Brian J. Lynch	Cash Incentive Compensation	—	$172,500	$ 690,000	$1,380,000	—	—	—	$ —	$ —
	Shares (b)	2/18/2015	$ —	$ —	$ —	—	3,500	3,500	$ —	$ 288,400
	Shares (c)	2/18/2015	$ —	$ —	$ —	—	7,000	10,500	$ —	$ 576,800
	Options (d)	2/18/2015	$ —	$ —	$ —	—	7,000	7,000	$82.40	$ 171,851
Kevin D. Corning	Cash Incentive Compensation	—	$ 94,688	$ 378,750	$ 757,500	—	—	—	$ —	$ —
	Shares (b)	2/18/2015	$ —	$ —	$ —	—	1,700	1,700	$ —	$ 140,080
	Shares (c)	2/18/2015	$ —	$ —	$ —	—	3,400	5,100	$ —	$ 280,160
	Options (d)	2/18/2015	$ —	$ —	$ —	—	3,400	3,400	$82.40	$ 83,470
Michael C. Wu	Cash Incentive Compensation	—	$ 50,000	$ 200,000	$ 400,000	—	—	—	$ —	$ —
	Shares (b)	2/18/2015	$ —	$ —	$ —	—	880	880	$ —	$ 72,512
	Shares (c)	2/18/2015	$ —	$ —	$ —	—	1,760	2,640	$ —	$ 145,024
	Options (d)	2/18/2015	$ —	$ —	$ —	—	1,760	1,760	$82.40	$ 43,208

(a) The amounts shown under the "Threshold" column represent 25% of the target cash incentive compensation, assuming threshold-level performance is achieved under the financial performance measures. The amounts shown under the "Target" column represent 100% of the target cash incentive compensation, assuming target-level performance is achieved under the financial performance measures. The amounts shown under the "Maximum" column represent 200% of the target cash incentive compensation, assuming maximum-level performance is achieved under the financial performance measures.

(b) Shares of time-based restricted stock were granted pursuant to the Company's Equity Incentive Plan. These restricted shares vest ratably in four equal, annual installments following the date of the grant.

(c) Shares of performance-based restricted stock were granted pursuant to the Company's Equity Incentive Plan. These restricted shares vest upon meeting specific performance targets through fiscal 2018. Once vested, the performance-based restricted shares for Mr. Casey may not be sold for an additional one-year period (except to satisfy tax obligations resulting from vesting of such shares). The amounts shown under the "Threshold" column represent 25% of the target grant award, assuming threshold-level performance is achieved under the performance vesting criteria. The amounts shown under the "Target" column represent 100% of the target grant award, assuming target-level performance is achieved under the performance vesting criteria. The amounts shown under the "Maximum" column represent 150% of the target grant award, assuming maximum-level performance is achieved under the performance vesting criteria. The dollar amounts under the "Grant Date Fair Value of Stock and Option Awards" are calculated based on the number of awards reported under the "Target" column.

(d) Time-based stock options were granted pursuant to the Company's Equity Incentive Plan. These stock options vest ratably in four equal, annual installments following the date of the grant. Information concerning how the Company uses the Black-Scholes model to determine the fair value of stock options can be found in Note 9 to the Company's consolidated financial statements included in Item 8 of the Company's Annual Report on Form 10-K for fiscal 2015.

(e) The stock options awarded have an exercise price based on the closing price of the Company's common stock as traded on the NYSE on the date of grant.

OUTSTANDING EQUITY AWARDS AT FISCAL 2015 YEAR-END

The following table provides information regarding unexercised stock options, stock that has not yet vested, and equity incentive plan awards for each NEO outstanding as of the end of fiscal 2015. Each outstanding award is represented by a separate row that indicates the number of securities underlying the award.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) (Exercisable)	Number of Securities Underlying Unexercised Options (#) (a) (Unexercisable)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (b)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (c)
Michael D. Casey	106,095	—	—	$17.90	8/6/2018		
	100,000	—	—	$18.14	3/12/2019		
	80,000	—	—	$28.04	2/16/2020		
	80,000	—	—	$28.44	2/24/2021		
	52,500	17,500	—	$42.61	2/22/2022		
	25,000	25,000	—	$59.27	2/20/2023		
	7,500	22,500	—	$68.49	2/18/2024		
	—	28,000	—	$82.40	2/18/2025		
						154,500	13,755,135
Richard F. Westenberger	6,500	—	—	$28.04	2/16/2020		
	12,000	—	—	$28.44	2/24/2021		
	6,000	2,000	—	$42.61	2/22/2022		
	4,000	4,000	—	$59.27	2/20/2023		
	950	2,850	—	$68.49	2/18/2024		
	—	3,400	—	$82.40	2/18/2025		
						21,325	1,898,565
Brian J. Lynch	4,500	—	—	$18.14	3/12/2019		
	13,000	—	—	$28.04	2/16/2020		
	12,000	—	—	$28.44	2/24/2021		
	6,000	2,000	—	$42.61	2/22/2022		
	9,000	9,000	—	$59.27	2/20/2023		
	1,875	5,625	—	$68.49	2/18/2024		
	—	7,000	—	$82.40	2/18/2025		
						44,312	3,945,097
Kevin D. Corning	10,000	10,000	—	$59.27	2/20/2023		
	950	2,850	—	$68.49	2/18/2024		
	—	3,400	—	$82.40	2/18/2025		
						23,325	2,076,625
Michael C. Wu	1,150	3,450	—	$68.49	2/18/2024		
	—	1,760	—	$82.40	2/18/2025		
						6,640	591,159

(a) Unexercisable options relate to the awards listed in the table below. These time-based stock options vest in four equal, annual installments following the date of the grant.

Name	Grant Date	Time-Based Stock Options Granted	Black-Scholes Fair Value	Option Exercise Price
Michael D. Casey	2/22/2012	70,000	$15.27	$42.61
	2/20/2013	50,000	$20.09	$59.27
	2/18/2014	30,000	$19.80	$68.49
	2/18/2015	28,000	$24.55	$82.40
Richard F. Westenberger	2/22/2012	8,000	$15.27	$42.61
	2/20/2013	8,000	$20.09	$59.27
	2/18/2014	3,800	$19.80	$68.49
	2/18/2015	3,400	$24.55	$82.40
Brian J. Lynch	2/22/2012	8,000	$15.27	$42.61
	2/20/2013	18,000	$20.09	$59.27
	2/18/2014	7,500	$19.80	$68.49
	2/18/2015	7,000	$24.55	$82.40
Kevin D. Corning	2/20/2013	20,000	$20.09	$59.27
	2/18/2014	3,800	$19.80	$68.49
	2/18/2015	3,400	$24.55	$82.40
Michael C. Wu	2/18/2014	4,600	$19.80	$68.49
	2/18/2015	1,760	$24.55	$82.40

(b) Equity Incentive Plan awards relate to the following grants:

The time-based restricted stock awards vest in four equal, annual installments following the date of the grant.

Vesting of the performance-based stock awards granted in fiscal 2013 occurred on February 25, 2016. Vesting of the performance-based stock awards granted in fiscal 2014 and 2015 is contingent upon meeting specific performance targets through fiscal 2016 and 2017, respectively. For Mr. Casey, once vested, the performance-based restricted shares granted to him after 2011 may not be sold for an additional one-year period (except to satisfy tax obligations resulting from vesting of such shares).

Name	Grant Date	Time-Based Restricted Shares	Performance-Based Restricted Shares	Grant Date Fair Value per Share
Michael D. Casey	2/22/2012	35,000	100,000	$42.61
	2/20/2013	25,000	50,000	$59.27
	2/18/2014	15,000	30,000	$68.49
	2/18/2015	14,000	28,000	$82.40
Richard F. Westenberger	2/22/2012	4,000	8,000	$42.61
	2/20/2013	4,000	8,000	$59.27
	2/18/2014	1,900	3,800	$68.49
	2/18/2015	1,700	3,400	$82.40
Brian J. Lynch	2/22/2012	4,000	8,000	$42.61
	2/20/2013	9,000	18,000	$59.27
	2/18/2014	3,750	7,500	$68.49
	2/18/2015	3,500	7,000	$82.40
Kevin D. Corning	2/20/2013	10,000	8,000	$59.27
	2/18/2014	1,900	3,800	$68.49
	2/18/2015	1,700	3,400	$82.40
Michael C. Wu	2/18/2014	2,000	2,500	$68.49
	2/18/2015	880	1,760	$82.40

(c) Amount based on the closing market price per share of the Company's common stock as traded on the NYSE on December 31, 2015 of $89.03.

OPTION EXERCISES AND STOCK VESTED IN FISCAL 2015

The following table provides information concerning our NEOs' exercises of stock options and vesting of restricted stock during fiscal 2015. The table reports, on an aggregate basis, the number of securities acquired upon exercise of stock options, the dollar value realized upon exercise of stock options, the number of shares of restricted stock that have vested, and the dollar value realized upon the vesting of restricted stock.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($) (a)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) (b)
Michael D. Casey	29,970	$2,016,790	208,750	$17,908,200
Richard F. Westenberger	—	$ —	14,475	$ 1,187,220
Brian J. Lynch	21,500	$1,781,735	17,438	$ 1,430,359
Kevin D. Corning	—	$ —	2,975	$ 244,190
Michael C. Wu	—	$ —	500	$ 41,200

(a) Aggregate dollar amount was calculated by multiplying the number of shares acquired by the difference between the market price of the underlying securities at the time of exercise and the exercise price of the stock options.

(b) Aggregate dollar amount was calculated by multiplying the number of shares acquired on vesting by the closing market price of the Company's common stock as traded on the NYSE on the date of vesting.

NONQUALIFIED DEFERRED COMPENSATION

Eligible employees, including our NEOs, may elect annually to defer a portion of their base salary and annual cash incentive compensation under The William Carter Company Deferred Compensation Plan (the "Deferred Compensation Plan"). Under this plan, participants can defer up to 75% of their salary and/or 90% of their cash bonus. At the option of the participant, these amounts may be deferred to a specific date at least two years from the last day of the year in which deferrals are credited into the participant's account. Interest on deferred amounts is credited to the participant's account based upon the earnings and losses of one or more of the investments selected by the participant from the various investment alternatives available under the Deferred Compensation Plan.

At the time of deferral, a participant must indicate whether he or she wishes to receive the amount deferred in either a lump sum or in substantially equal annual installments over a period of up to five years for "Specified Date" accounts or up to ten years for "Retirement" accounts. If a participant who is an employee of the Company separates from service prior to the elected commencement date for distributions and has not attained age 62 or age 55 and completed ten years of service, then the deferred amounts will be distributed as a lump sum, regardless of the method of distribution originally elected by the participant. If the participant in question has attained age 62 or age 55 with ten years of service and has previously elected to do so on a timely basis, then the participant may receive the amounts in substantially equal annual installments over a period of up to ten years. There is a six-month delay in the commencement of distributions for all participants, if triggered by the participant's termination or retirement. Changes to deferral elections with respect to previously deferred amounts are permitted only under the limited terms and conditions specified in the Internal Revenue Code and early withdrawals from deferred accounts are permitted only in extreme cases, such as unforeseen financial hardship resulting from an illness or accident of the participant which is demonstrated to the Company's Retirement Committee.

FISCAL 2015 NONQUALIFIED DEFERRED COMPENSATION TABLE

	Employee Contributions (a)	Company Contributions	Aggregate Earnings (b)	Withdrawals or Distributions	Aggregate Balance (c)
Michael D. Casey	$ —	$—	$ —	$—	$ —
Richard F. Westenberger	$ 5,506	$—	$ (285)	$—	$ 78,190
Brian J. Lynch	$ 10,955	$—	$ 838	$—	$ 98,804
Kevin D. Corning	$494,420	$—	$(14,270)	$—	$981,219
Michael C. Wu	$ —	$—	$ —	$—	$ —

(a) All of the amounts reported in this column for Messrs. Westenberger and Lynch are also included within the amount reported for that officer in the 2015 Summary Compensation Table. The amount reported in this column for Mr. Corning, includes $223,300 in contributions from his 2014 annual cash incentive compensation which is not included in the amounts reported for him in the 2015 Summary Compensation Table.

(b) None of the amounts reported in this column are reported in the All Other Compensation column of the 2015 Summary Compensation Table because the Company does not pay guaranteed or preferential earnings on deferred compensation.

(c) Amounts reported in this column for each NEO include amounts previously reported in the Company's Summary Compensation Table in previous years when earned if that NEO's compensation was required to be disclosed in a previous year.

SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS, AND EXECUTIVE OFFICERS

The following table sets forth the number of shares of Carter's, Inc. common stock owned by each of the following parties as of March 21, 2016, or as of such other date as indicated: (a) each person known by the Company to own beneficially more than five percent of the outstanding common stock; (b) our NEOs; (c) each director; and (d) all directors and executive officers as a group. Unless otherwise indicated below, the holder's address is 3438 Peachtree Road NE, Suite 1800, Atlanta, Georgia 30326.

Name of Beneficial Owner	Shares	Percent
Hound Partners, LLC (1)	3,916,912	7.5%
Blackrock, Inc. (2)	3,658,422	7.0%
The Vanguard Group, Inc. (3)	3,622,609	7.0%
Janus Capital Management, LLC (4)	3,181,558	6.1%
Michael D. Casey (5)	910,047	1.7%
Brian J. Lynch (5)	123,538	*
Richard F. Westenberger (5)	86,186	*
Kevin D. Corning (5)	47,269	*
Michael C. Wu (5)	13,464	*
Amy Woods Brinkley (5)	18,918	*
Vanessa J. Castagna (5)	19,676	*
A. Bruce Cleverly (5)	7,321	*
Jevin S. Eagle (5)	7,282	*
Paul Fulton (5)	86,242	*
William J. Montgoris (5)	27,473	*
David Pulver (5)	50,502	*
Thomas E. Whiddon (5)	67,520	*
All directors and Executive Officers as a group (5)	1,616,500	3.1%

* Indicates less than 1% of our common stock.

(1) This information is based on Schedule 13G/A, filed with the SEC on February 16, 2016. Hound Partners, LLC and Jonathan Auerbach have shared voting power and dispositive power covering 3,916,912 shares of our common stock. The address for Hound Partners, LLC is 101 Park Avenue, 48th Floor, New York, NY 10178.

(2) This information is based on Schedule 13G/A, filed with the SEC on January 26, 2016. BlackRock, Inc. has sole voting power covering 3,468,016 shares and dispositive power covering 3,658,422 shares of our common stock. The address for BlackRock, Inc. is 40 East 52nd Street, New York, NY 10022.

(3) This information is based on Schedule 13G/A, filed with the SEC on February 10, 2016. The Vanguard Group, Inc. has sole voting power covering 38,529 shares and sole dispositive power covering 3,584,380 shares of our common stock. The Vanguard Group, Inc. has shared dispositive power covering 38,229 shares of our common stock. The address for The Vanguard Group, Inc. is 100 Vanguard Boulevard, Malvern, PA 19355.

(4) This information is based on Schedule 13G/A, filed with the SEC on February 17, 2015. Janus Capital Management, LLC has sole voting power and dispositive power covering 3,181,558 shares of our common stock. INTECH Investment Management (a direct subsidiary of Janus Capital Management, LLC) has shared voting power and dispositive power covering 19,400 shares of our common stock. The address for Janus Capital Management, LLC is 151 Detroit Street, Denver, CO 80206.

(5) This amount includes (a) number of shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 21, 2016, and (b) number of shares of restricted common stock. Additional detail for each NEO is below:

Name	Exercisable Stock Options	Restricted Common Stock
Michael D. Casey	495,595	123,610
Richard F. Westenberger	35,250	22,045
Brian J. Lynch	56,500	41,192
Kevin D. Corning	17,750	20,345
Michael C. Wu	2,740	10,080
All executive officers as a Group	674,220	266,862

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Company's executive officers and directors, and persons who beneficially own more than ten percent (10%) of the Company's common stock, file initial reports of ownership and changes in ownership with the SEC and the NYSE. Based on a review of the copies of such forms furnished to the Company with respect to fiscal 2015, the Company believes that all forms were filed in a timely manner during fiscal 2015, except that Mr. Eagle filed a Form 4 on June 3, 2015 for a sale of Company stock that occurred on May 20, 2015.

PROPOSAL NUMBER TWO
ADVISORY VOTE ON APPROVAL OF EXECUTIVE COMPENSATION

The Compensation Discussion and Analysis section of this proxy statement beginning on page 20 describes the Company's executive compensation program and the compensation decisions that the Compensation Committee and Board of Directors made in fiscal 2015 with respect to the compensation of the Company's NEOs.

The Company is committed to achieving long-term, sustainable growth and increasing shareholder value. The Company's compensation program for its NEOs is designed to support these objectives and encourage strong financial performance on an annual and long-term basis by linking a significant portion of the NEOs' total direct compensation to Company performance in the form of incentive compensation.

The Board of Directors is asking shareholders to cast a non-binding, advisory vote **FOR** the following resolution:

> "RESOLVED, that the compensation paid to the Company's NEOs, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative discussion, is hereby APPROVED."

This proposal is commonly referred to as the "say-on-pay" vote and is required pursuant to Section 14A of the Exchange Act. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the policies and practices described in this proxy statement. Although the vote we are asking you to cast is non-binding, the Compensation Committee and the Board value the views of our shareholders and intend to consider the outcome of the vote when determining future compensation arrangements for our NEOs.

The Board recommends a vote FOR the approval of compensation of the Company's NEOs as disclosed in this proxy statement.

Vote Required

Because this Proposal Number Two asks for a non-binding, advisory vote, there is no required vote that would constitute approval. We value the opinions expressed by our shareholders in this advisory vote, and our Compensation Committee will consider the outcome of the vote when designing our compensation programs and making future compensation decisions for our NEOs. Abstentions and broker non-votes, if any, will not have any impact on this advisory vote.

PROPOSAL NUMBER THREE
APPROVAL OF THE COMPANY'S AMENDED AND RESTATED EQUITY INCENTIVE PLAN

Introduction and Background

The Company's Equity Incentive Plan, as adopted on April 15, 2001 and approved by shareholders on August 15, 2001, and as amended, restated and renamed on October 10, 2003 and approved by shareholders on October 10, 2003 (prior to the Company's initial public offering) and on May 14, 2004, and as further amended and restated effective as of, and approved by shareholders on, May 12, 2005, May 14, 2009, and May 13, 2011, respectively (the "Existing Equity Incentive Plan"), provides for the grant or award of stock options, stock appreciation rights, restricted stock, unrestricted stock, deferred stock, and performance awards to eligible employees and directors. To date, we have granted stock options and restricted stock awards, subject to time and/or performance vesting, under the Existing Equity Incentive Plan, including the grants to the NEOs shown above in this proxy statement. We believe that the grants awarded under the Existing Equity Incentive Plan help with retention of our NEOs and other executives and key personnel and also serve to link a portion of their compensation to measures of our performance to provide an incentive for successful long-term strategic management of the Company. The Compensation Committee, the Board, and the Company's management believe it is in the best interest of the Company and its shareholders to amend and restate the Existing Equity Incentive Plan. Our shareholders are being asked to approve the amendment and restatement of the Existing Equity Incentive Plan (as amended and restated, the "Equity Incentive Plan").

The Equity Incentive Plan is designed to allow awards granted under it to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Section 162(m) of the Code generally limits deductions by an employer for compensation in excess of $1 million per year that is paid to "covered employees," including our Chief Executive Officer and the three other most highly compensated executive officers, excluding our Chief Financial Officer, at the end of the applicable fiscal year. However, performance-based compensation is not subject to this limitation and is deductible if: (1) such compensation is paid under an incentive plan, the material terms of which are disclosed to and approved by the shareholders prior to payment, (2) such compensation is payable solely based on attainment of one or more objective performance goals established in writing by a committee consisting of two or more "outside directors," as defined by Section 162(m) of the Code (in this case, the Compensation Committee), (3) such compensation is payable solely upon written certification by the Compensation Committee that the performance goals and any other material terms have been satisfied, and (4) the compensation terms, including applicable performance goals and the maximum amount payable to any covered employee, are approved by shareholders. If the administrator of a plan has the authority to change the targets under a performance goal, such as under our Existing Equity Incentive Plan, then the material terms of the plan must be re-approved by shareholders by the first shareholder meeting that occurs in the fifth year after the year that the shareholders previously approved the performance goal.

In light of these requirements, the Equity Incentive Plan is being submitted to shareholders for approval at the Annual Meeting.

In addition, we have made certain changes to the Equity Incentive Plan to bring it in line with best practices under Section 162(m) of the Code and to conform provisions between it and our Incentive Compensation Plan, as well as other clerical changes.

The modifications described above and the following description are each summaries of the material features of the Equity Incentive Plan but may not contain all the information you may wish to know. We encourage you to review the entire text of the Equity Incentive Plan which is attached hereto as Appendix B. The Equity Incentive Plan is not required to be qualified under Section 401 of the Code nor is it subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. The Board and the Compensation Committee have approved the Equity Incentive Plan.

Summary of Equity Incentive Plan

Purpose. The Equity Incentive Plan enhances the Company's ability to continue to attract and retain able key employees and directors, reward such individuals for their contributions, and encourage such individuals to take into account the long-term interests of the Company and its subsidiaries. To this end, the Equity Incentive Plan permits the Company to grant a variety of stock-based awards and related benefits, including stock options, stock appreciation rights, restricted or unrestricted stock awards, promises to deliver stock in the future, and rights to receive stock based on performance.

Eligibility and Participation. Directors and key employees who, in the opinion of the Equity Incentive Plan's administrator, are in a position to make a significant contribution to the success of the Company and its subsidiaries will be eligible to receive awards under the Equity Incentive Plan.

Effective Date and Term. The effective date of the Equity Incentive Plan if Proposal Number Three is approved will be May 11, 2016, the date of our Annual Meeting. Although the number of shares that may be granted under the Equity Incentive Plan is limited, as described below, there is no time limit on the duration of the Equity Incentive Plan itself.

Administration. The Equity Incentive Plan is administered by, or under the direction of, the Compensation Committee. The administrator will set the terms of all awards including the exercise price for awards that have one. Subject only to the limitations provided in the Equity Incentive Plan, the administrator has discretionary authority to interpret the Equity Incentive Plan; determine eligibility for and grant awards; determine, modify, or waive the terms and conditions of any award; prescribe forms, rules, and procedures; and otherwise do all things necessary to carry out the purposes of the Equity Incentive Plan. In the case of any award intended to be eligible for the performance-based compensation exception under Section 162(m) of the Code, the administrator intends to exercise its discretion under the Equity Incentive Plan so as to qualify the award for that exception. Determinations of the administrator made under the Equity Incentive Plan are conclusive and bind all parties.

Section 162(m) Limits and Requirements. The maximum number of shares for which stock options may be granted to any person in any calendar year and the maximum number of shares subject to stock appreciation rights granted to any person in any calendar year will each be 1,000,000, subject to adjustments in the event of changes in our capitalization as described above. The maximum benefit that may be paid to any person under other awards in any calendar year will be, to the extent paid in shares, 1,000,000 shares (or their value in dollars), subject to adjustments in the event of changes in our capitalization as described above. The administrator has the authority, at the time an award is granted under the Equity Incentive Plan, to designate such award as a "performance award" intended to qualify as "performance-based compensation" under Section 162(m) of the Code. With respect to such awards, the administrator determines the length of the performance period, and then determines which participants will be eligible to receive performance awards with respect to such performance period and establishes one or more specific performance goals that must be achieved, within the first 90 days of the performance period for such performance awards (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code). The achievement of the performance goals serve as a condition to the grant, vesting, or payment of the performance award, as determined by the administrator. The performance goals pre-established by the administrator will be based on the attainment of one or more of the following performance criteria: sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity), or refinancings. Any one or more of the above performance criteria may be used on an absolute or relative basis to measure the performance of the Company and/or an affiliate as a whole or any division, subsidiary, line of business, operational unit, project or geographical basis of the Company and/or an affiliate or any combination thereof, as the administrator may deem appropriate, or as compared to the performance of a group of comparable companies, or published or special index that the administrator, in its sole discretion, deems appropriate.

Prior to grant, vesting, or payment of the performance award, as the case may be, the administrator determines whether the performance goals applicable to a performance award have been attained during the performance period, and such determination is conclusive. If the performance goals are not attained, no other award is provided in substitution of the performance award. The administrator will have the discretion to adjust downwards, but not upwards, amounts payable or benefits granted, issued, retained or vested under a performance award described above. The administrator does not have the discretion to waive the achievement of performance goals applicable to performance awards. The administrator is authorized to adjust or modify the calculation of a performance goal (to the extent permitted under Section 162(m) of the Code) in order to prevent the dilution or enlargement of the rights of participants, based on any of the following events that occur during a performance period: (i) asset write-downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual and/or infrequently occurring items as presented in the Company's financial statements; (vi) acquisitions or divestitures; (vii) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (viii) foreign exchange gains and losses; and (ix) a change in the Company's fiscal year.

The provisions of the previous paragraph will not apply to an award that consists of a stock option or stock appreciation right that was granted with an exercise price not less than the fair market value of the underlying stock on the date of grant.

Shares Subject to the Equity Incentive Plan

Number of Shares. The aggregate maximum number of shares of common stock that may be delivered in satisfaction of awards under the Equity Incentive Plan is 15,778,392, subject to adjustment in the event of certain changes in our capitalization as described below. As of the record date, there were 1,600,684 shares of common stock available for delivery. Please note that we are not seeking approval to increase the number of shares available under the Equity Incentive Plan at this time, and that the number of authorized shares is the same as under the Existing Equity Incentive Plan.

Any shares of common stock granted in connection with awards other than options and stock appreciation rights will reduce the number of shares of common stock available for issuance under the Equity Incentive Plan by 1.46 shares for every one share of stock subject to such award. With respect to stock appreciation rights, if such a right is exercised, the number of shares of stock deemed to have been issued under the Equity Incentive Plan will be reduced by the aggregate number of shares subject to the stock appreciation right so exercised. If shares of common stock are withheld from an award granted under the Equity Incentive Plan in order to satisfy tax withholding obligations, the number of shares of stock deemed to have been issued under the Equity Incentive Plan will be the aggregate number of shares subject to the award or the portion of the award that was exercised or settled. In addition, no incentive stock options may be granted under the Equity Incentive Plan after August 15, 2011, except with respect to the 3,725,000 shares approved in 2011, which may be granted by the Company until May 13, 2021.

If any award granted under the Equity Incentive Plan terminates, or is otherwise forfeited in whole or in part, before it is fully exercised, or upon exercise is satisfied other than by delivery of stock, the number of shares as to which such award was not exercised shall be available for future grants.

Adjustments to Awards. In the event of a stock dividend, stock split, or combination of shares (including a reverse stock split), recapitalization or other change in our capital structure, the administrator will make appropriate adjustments to the maximum number of shares that may be delivered under the Equity Incentive Plan and to the maximum share limits on awards to individual participants. The administrator will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards then outstanding or subsequently granted, any exercise prices relating to awards, and any other provision of awards affected by such change. In general, such adjustments may be made only if and to the extent that such adjustments will not constitute a modification, extension or renewal of such awards under Section 424(h)(3) of the Code (in the case of incentive stock options), a modification under Section 409A of the Code (in the case of nonstatutory stock options), adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act, or cause the Company to be denied a tax deduction on account of Section 162(m) of the Code (with respect to performance awards).

Shares to be Delivered. Shares delivered under the Equity Incentive Plan will be authorized but unissued common stock, or previously issued common stock that we acquire and hold in our treasury. No fractional shares will be delivered under the Equity Incentive Plan.

Awards

Stock Options. The administrator may from time to time award stock options to any participant subject to the limitations described above. Stock options give the holder the right to purchase shares of our common stock within a specified period of time at a specified price and subject to other terms and conditions. Two types of stock options may be granted under the Equity Incentive Plan: incentive stock options, or "ISOs," which are subject to special tax treatment as described below, and non-statutory options. As indicated above, eligibility for ISOs is limited to our employees. The expiration date of an ISO cannot be more than ten years after the date of the original grant. The expiration date of a non-statutory option is determined by the discretion of the administrator. The exercise price of any option granted under the Equity Incentive Plan cannot be less than the fair market value of the underlying stock on the date of grant. The administrator also determines all other terms and conditions related to the exercise of a stock option, including the consideration to be paid, if any, for the grant of the stock options, the time at which stock options may be exercised, and conditions related to the exercise of stock options.

Stock Appreciation Rights. The administrator may grant stock appreciation rights under the Equity Incentive Plan. A stock appreciation right entitles the holder upon exercise to receive common stock equal in value to the excess of the fair market value of the shares of stock subject to the right over the fair market value of such shares on the date of grant.

Stock Awards; Deferred Stock. The Equity Incentive Plan provides for awards of nontransferable shares of restricted common stock, as well as unrestricted shares of common stock. Awards of restricted and unrestricted stock may be made in exchange for past services or other lawful consideration. Generally, awards of restricted stock are subject to the requirement that the shares be forfeited or resold to us unless specified conditions are met. Other awards under the Equity Incentive Plan may also be settled with restricted stock. The Equity Incentive Plan also provides for deferred stock grants entitling the recipient to receive shares of common stock in the future on such conditions as the Compensation Committee may specify.

Performance Awards. The Compensation Committee may also make awards subject to the satisfaction of specified performance criteria. The performance criteria used in connection with a particular performance award will be determined by the administrator. In the case of performance awards intended to qualify for exemption under Section 162(m) of the Code, limits and requirements described above under "162(m) Limits and Requirements" will apply.

Dividend Equivalents. With the exception of stock options and stock appreciation rights, the Compensation Committee may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to stock subject to an award consistent with an exemption from or, in compliance with, the requirements of Section 409A of the Code.

Non-Transferability. No award may be transferred other than by will or by the laws of descent and distribution, and during a participant's lifetime an award may be exercised only by the participant; provided, however, that the foregoing does not prohibit any transfer of an award of unrestricted stock or, for periods after restricted stock ceases to be subject to restrictions requiring that it be redeemed or offered for sale to the Company if specified conditions are not satisfied.

Effect, Discontinuance, Cancellation, Amendment, and Termination. Neither adoption of the Equity Incentive Plan nor the grant of awards to a participant shall affect our right to make awards to such participant that are not subject to the Equity Incentive Plan, to issue shares to such participant as a bonus or otherwise, or to adopt other plans or compensation arrangements under which shares may be issued.

The administrator may at any time discontinue granting awards under the Equity Incentive Plan. With the consent of the participant, the administrator may at any time cancel an existing award in whole or in part and grant another award for such number of shares as the administrator specifies. The administrator may, but is not obligated to, at any time amend the Equity Incentive Plan or any outstanding award for the purpose of satisfying the requirements of Section 409A or Section 422 of the Code, or of any changes in applicable laws or regulations or for any other purpose that may at the time be permitted by law, or may at any time terminate the Equity Incentive Plan as to any further grants of awards. However, except to the extent expressly required by the Equity Incentive Plan, no such amendment may adversely affect the rights of any participant (without his or her consent) under any award previously granted, nor may such amendment, without the approval of the shareholders, effectuate a change for which shareholder approval is required under the listing standards of the NYSE or in order for the Equity Incentive Plan to continue to qualify for the award of incentive stock options under Section 422 of the Code.

Federal Tax Effects. The following discussion summarizes the material Federal income tax consequences of the grant and exercise of stock options under the Equity Incentive Plan, based on the Federal income tax laws in effect on the date of this proxy statement. The summary does not purport to be a complete description of Federal tax consequences that may be associated with the Equity Incentive Plan, nor does it cover state, local, or non-United States taxes.

Incentive Stock Options. In general, an optionee realizes no taxable income upon the grant of an ISO and does not realize any ordinary income in connection with the exercise of the ISO. However, the exercise of an ISO may result in an alternative minimum tax liability to the optionee. With certain exceptions, if a disposition of shares purchased under an ISO occurs within two years from the date of grant or within one year after exercise, the so-called "disqualifying" disposition results in ordinary income to the optionee (and a deduction available to the Company) equal to the excess of the fair market value of the shares at the time of exercise over the exercise price. Any additional gain recognized on the disposition is treated as a capital gain for which we are not entitled to a deduction. If the optionee does not dispose of the shares until after the expiration of these one- and two-year holding periods, any gain or loss recognized upon a subsequent sale is treated as a long-term capital gain or loss for which we are not entitled to a deduction.

Non-Statutory Options. In general, a grantee realizes no taxable income at the time of the grant of a non-statutory option, but realizes ordinary income in connection with the exercise of the option in an amount equal to the excess of the fair market value of the shares at the time of exercise over the exercise price. A corresponding deduction is available to the Company. Any gain or loss recognized upon a subsequent sale or exchange of the shares is treated as a capital gain or loss, long or short-term depending on the period the shares are held, for which we are not entitled to a deduction. ISOs are treated as non-statutory stock options to the extent they first become exercisable by an individual in any calendar year for shares having an aggregate fair market value (determined as of the date of grant) in excess of $100,000. In general, ISOs are also treated as non-statutory options to the extent that they are exercised by the optionee more than three months after termination of employment.

Under the so-called "golden parachute" provisions of the Code, options that are granted or that vest in connection with a change in control of the Company may be required to be valued and taken into account in determining whether the participant has received payments in the nature of compensation that are contingent on the change in control in excess of certain limits. If these limits are exceeded the excess may be subject to an additional 20% Federal tax and may be nondeductible to the Company.

Plan Benefits. The future benefits or amounts that would be received under the Equity Incentive Plan by executive officers, non-management directors, and non-executive officer employees are discretionary and are therefore not determinable at this time.

The foregoing is only a summary of the Equity Incentive Plan and is qualified in its entirety by reference to its full text, a copy of which is attached hereto as Appendix B.

The Board recommends a vote FOR the approval of the Equity Incentive Plan.

Vote Required

The approval of Proposal Number Three requires the affirmative vote of a majority of the votes cast by the shareholders present in person or represented by proxy at our Annual Meeting. Votes to abstain and broker non-votes will be counted toward a quorum, but will be excluded entirely from the tabulation of votes and, therefore, will not affect the outcome of the vote on this proposal.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about the Company's equity compensation plan as of the end of its last fiscal year:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders (1)	1,423,660(2)	$46.56	2,041,526
Equity compensation plans not approved by security holders	—	—	—
Total	1,423,660	$46.56	2,041,526

(1) Represents stock options that are outstanding or that are available for future issuance pursuant to the Equity Incentive Plan.

(2) The weighted-average contractual life for all outstanding stock options as of January 2, 2016 was approximately 6.05 years.

PROPOSAL NUMBER FOUR
APPROVAL OF THE COMPANY'S AMENDED AND RESTATED ANNUAL INCENTIVE COMPENSATION PLAN

Introduction and Background

The Annual Incentive Compensation Plan, as adopted on February 10, 1989, as amended and restated effective December 29, 2002, and as further amended and restated effective as of, and approved by shareholders on, May 11, 2006 and May 13, 2011, respectively (the "Existing Incentive Compensation Plan"), provides for the grant of awards to employees providing for the payment of incentive compensation upon the achievement of performance criteria established by the Compensation Committee. Historically, we have paid management and key employees bonuses under the Existing Incentive Compensation Plan, and the Board believes the Existing Incentive Compensation Plan is an important component of management's potential total cash compensation because it is intended to make an increasing portion of management's compensation dependent on our performance and to provide incentives to achieve our near and long-term goals, increase shareholder value and improve teamwork in meeting goals and overcoming challenges. The Compensation Committee, the Board and the Company's management believe it is in the best interest of the Company and its shareholders to amend and restate the Existing Incentive Compensation Plan. Our shareholders are being asked to approve the amendment and restatement of the Existing Incentive Compensation Plan (as amended and restated, the "Incentive Compensation Plan").

The Incentive Compensation Plan is designed to allow awards granted under it to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Section 162(m) of the Code generally limits deductions by an employer for compensation in excess of $1 million per year that is paid to "covered employees," including our Chief Executive Officer and the three other most highly compensated executive officers, excluding our Chief Financial Officer, at the end of the applicable fiscal year. However, performance-based compensation is not subject to this limitation and is deductible if: (1) such compensation is paid under an incentive plan, the material terms of which are disclosed to and approved by the shareholders prior to payment, (2) such compensation is payable solely based on attainment of one or more objective performance goals established in writing by a committee consisting of two or more "outside directors," as defined by Section 162(m) of the Code (in this case the Compensation Committee), (3) such compensation is payable solely upon written certification by the Committee that the performance goals and any other material terms have been satisfied, and (4) the compensation terms, including applicable performance goals and the maximum amount payable to any covered employee, are approved by shareholders. If the administrator of a plan has the authority to change the targets under a performance goal, such as under the Existing Incentive Compensation Plan, then the material terms of the plan must be re-approved by shareholders by the first shareholder meeting that occurs in the fifth year after the year that the shareholders previously approved the performance goal.

In light of these requirements, the Incentive Compensation Plan is being submitted to shareholders for approval at the 2016 Annual Meeting.

In addition, we have made certain changes to the Incentive Compensation Plan to bring it in line with best practices under Section 162(m) of the Code and to conform provisions between it and our Equity Incentive Plan, as well as other clerical changes.

The modifications described above and the following description are each summaries of the material features of the Incentive Compensation Plan but may not contain all the information you may wish to know. We encourage you to review the entire text of the Incentive Compensation Plan which is attached hereto as Appendix C. The Board and the Compensation Committee have approved the Incentive Compensation Plan.

Summary of the Incentive Compensation Plan

Purpose. The Incentive Compensation Plan provides a means of paying incentive compensation to those employees (including those who also serve as officers or directors) in managerial and other important positions whose ability, ingenuity, and industry experience contribute materially to our success. Pursuant to the Incentive Compensation Plan, the Compensation Committee establishes performance criteria and grants awards providing for the payment of incentive compensation upon the achievement of such performance criteria.

Eligibility and Participation. Prior to the beginning of each fiscal year, the administrator shall designate which employees may participate in the Incentive Compensation Plan for that year. The administrator may also designate additional employees, who are hired or promoted during the course of each fiscal year, or who otherwise became eligible (as determined by the administrator) during the course of the fiscal year, as eligible to participate in the Incentive Compensation Plan.

Effective Date and Term. The effective date of the Incentive Compensation Plan if Proposal Number Four is approved, will be May 11, 2016, the date of our Annual Meeting. There is no time limit on the duration of the Incentive Compensation Plan.

Administration. The Incentive Compensation Plan is administered by, or under the direction of, the Compensation Committee. The administrator will set the terms of all awards. Subject only to the limitations provided in the Incentive Compensation Plan, the administrator has discretionary authority to interpret the Incentive Compensation Plan; determine eligibility for and grant awards; determine, modify, or waive the terms and conditions of any award; prescribe forms, rules, and procedures; and otherwise do all things necessary to carry out the purposes of the Incentive Compensation Plan. In the case of any award intended to be eligible for the performance-based compensation exception under Section 162(m) of the Code, the administrator intends to exercise its discretion under the Incentive Compensation Plan so as to qualify the award for that exception. Determinations of the administrator made under the Incentive Compensation Plan are conclusive and bind all parties.

Section 162(m) Limits and Requirements. The maximum benefit that may be paid to any person under any awards intended to qualify as performance-based under Section 162(m) of the Code in any calendar year is $5,000,000. The administrator has the authority, at the time an award is granted under the Incentive Compensation Plan, to designate such award as a "performance award" intended to qualify as "performance-based compensation" under Section 162(m) of the Code. With respect to such awards, for each fiscal year of the Company (the performance period), the administrator determines which participants will be eligible to receive performance awards with respect to such performance period and establishes one or more specific performance goals that must be achieved, within the first 90 days of such performance period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code). The achievement of the performance goals serve as a condition to the grant, vesting, or payment of the performance award, as determined by the administrator. The performance goals pre-established by the administrator will be based on the attainment of one or more of the following performance criteria: sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity), or refinancings. Any one or more of the above performance criteria may be used on an absolute or relative basis to measure the performance of the Company and/or an affiliate as a whole or any division, subsidiary, line of business, operational unit, project or geographical basis of the Company and/or an affiliate or any combination thereof, as the administrator may deem appropriate, or as compared to the performance of a group of comparable companies, or published or special index that the administrator, in its sole discretion, deems appropriate.

Prior to grant, vesting, or payment of the performance award, as the case may be, the administrator determines whether the performance goals applicable to a performance award have been attained during the performance period, and such determination is conclusive. If the performance goals are not attained, no other award is provided in substitution of the performance award. The administrator will have the discretion to adjust downwards, but not upwards, amounts payable or benefits granted, issued, retained or vested under a performance award described above. The administrator does not have the discretion to waive the achievement of performance goals applicable to performance awards. The administrator is authorized to adjust or modify the calculation of a performance goal (to the extent permitted under Section 162(m) of the Code) in order to prevent the dilution or enlargement of the rights of participants, based on any of the following events that occur during a performance period: (i) asset write-downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual and/or infrequently occurring items as presented in the Company's financial statements; (vi) acquisitions or divestitures; (vii) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (viii) foreign exchange gains and losses; and (ix) a change in the Company's fiscal year.

Incentive Compensation Awards. With respect to any awards that are not designated as a "performance award" intended to qualify as "performance-based compensation" under Section 162(m) of the Code, on or before the close of the first quarter of each fiscal year, the administrator establishes the performance goals that it deems appropriate for determining the aggregate amount of incentive compensation which may be allowed to each of the participants for attainment of such performance goals during the forthcoming year. With respect to any awards that are not intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the administrator is authorized, in its sole and absolute discretion, to adjust or modify the calculation of a performance goal in order to prevent the dilution or enlargement of the rights of participants, based on any of the following events: (i) asset write-downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual and/or infrequently occurring items as presented in the Company's financial statements; (vi) acquisitions or divestitures; (vii) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (viii) foreign exchange gains and losses; and (ix) a change in the Company's fiscal year.

We are not required to segregate any of our assets for the reserve account and the amount is available for our general corporate purposes. No participant or beneficiary of any participant may assert any right or claim under the Incentive Compensation Plan against any of our specific assets or our subsidiaries or against the reserve account.

Allocation of Incentive Compensation Awards to Individuals. As soon as practicable after the end of each fiscal year, the Compensation Committee determines the aggregate amount to be allocated to each participant under the Incentive Compensation Plan for the preceding year. With respect to any awards that are not intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the administrator takes into account the performance criteria and the recommendation of our Chief Executive Officer.

With respect to any award intended to qualify under the performance-based compensation exception under Section 162(m) of the Code, the administrator determines whether the applicable performance goals have been attained, and such determination is conclusive. If the performance goals are not attained, no other award is provided in substitution of the performance award. The administrator has the discretion to adjust downwards but not upwards amounts payable or benefits granted, issued, retained or vested under a performance award intended to qualify under the performance-based compensation exception under Section 162(m) of the Code. The administrator does not have the discretion to waive the achievement of performance goals applicable to such performance awards. However, the administrator is authorized to adjust or modify the calculation of a performance goal (to the extent permitted under Section 162(m) of the Code) in order to prevent the dilution or enlargement of the rights of participants, based on any of the following events that occur during a performance period: (i) asset write-downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual and/or infrequently occurring items as presented in the Company's financial statements; (vi) acquisitions or divestitures; (vii) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (viii) foreign exchange gains and losses; and (ix) a change in the Company's fiscal year.

Amendment. The Compensation Committee may, from time to time amend, modify, change, or terminate in whole or in part any or all of the provisions of the Incentive Compensation Plan. No such amendment, modification, or change shall reduce the amount then credited to the account of any participant in the reserve account. If the Incentive Compensation Plan is terminated and superseded by a new incentive compensation plan having substantially similar provisions, the accounts of participants in the reserve account, may, at the discretion of the Compensation Committee, be continued in an incentive compensation reserve under such new plan. If the Incentive Compensation Plan is terminated and the Compensation Committee chooses not to continue the accounts of participants in an incentive compensation reserve under a new plan, all amounts credited under the Incentive Compensation Plan will be distributed to the participants or their beneficiaries as soon as practicable, but in no event later than the 30th day following the date of termination of the Incentive Compensation Plan.

Plan Benefits. The future benefits or amounts that would be received under the Incentive Compensation Plan by executive officers, non-management directors, and non-executive officer employees are discretionary and are therefore not determinable at this time.

The foregoing is only a summary of the Incentive Compensation Plan and is qualified in its entirety by reference to its full text, a copy of which is attached hereto as Appendix C.

The Board recommends a vote FOR the approval of the Company's Incentive Compensation Plan.

Vote Required

The approval of Proposal Number Four requires the affirmative vote of a majority of the votes properly cast at our Annual Meeting. Votes to abstain and broker non-votes will be counted toward a quorum, but will be excluded entirely from the tabulation of votes and, therefore, will not affect the outcome of the vote on this proposal.

TRANSACTIONS WITH RELATED PERSONS, PROMOTERS, AND CERTAIN CONTROL PERSONS

The Company has a written policy that requires all transactions with related persons be reviewed by our Chief Financial Officer, and all such transactions involving more than $10,000 be reviewed by our Chief Financial Officer with our Audit Committee and approved by our Audit Committee. Our Chief Financial Officer annually reviews all transactions with related persons with our Audit Committee. The Company considers the following to be related parties: any director or executive officer of the Company; any nominee for election as a director; any security holder who is known to the Company to own more than five percent of any class of the Company's voting securities; and any member of the immediate family of any of the parties listed above including such party's spouse, parents; children; siblings; mothers and fathers-in-law, sons and daughters-in-law, and brothers and sisters-in-law.

There were no such transactions during fiscal 2015.

AUDIT COMMITTEE REPORT

The Audit Committee reviews the Company's accounting, auditing, and financial reporting process on behalf of the Board. The Audit Committee's charter is available in the Investor Relations section of our website at ir.carters.com. Management has the primary responsibility for establishing and maintaining adequate internal financial controls, for preparing the financial statements, and for the public reporting process. PwC, the Company's independent registered public accounting firm, is responsible for expressing opinions on the conformity of the Company's audited consolidated financial statements with accounting principles generally accepted in the United States of America and on the effectiveness of the Company's internal control over financial reporting.

The Audit Committee has reviewed and discussed with management and PwC the audited consolidated financial statements for the fiscal year ended January 2, 2016 and PwC's evaluation of the effectiveness of the Company's internal control over financial reporting. The Audit Committee has discussed with PwC the matters that are required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T. The Audit Committee has received the written disclosures and the letter from PwC required by applicable requirements of the PCAOB regarding PwC's communications with the Audit Committee concerning independence, and has discussed with PwC the firm's independence.

Based on the review and discussions referred to above, the Audit Committee recommended to our Board of Directors that the audited consolidated financial statements for the fiscal year ended January 2, 2016 be included in our Annual Report on Form 10-K for fiscal 2015 for filing with the SEC.

Submitted by the Audit Committee

Mr. David Pulver, Chairman
Ms. Amy Woods Brinkley
Mr. William J. Montgoris
Mr. Thomas E. Whiddon

The Audit Committee Report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that we specifically incorporate the Audit Committee Report by reference therein.

PROPOSAL NUMBER FIVE
RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed PwC to serve as the Company's independent registered public accounting firm for fiscal 2016, and the Board recommends that shareholders ratify this appointment. The Board is submitting the appointment of PwC as the Company's independent registered public accounting firm for shareholder ratification. The Board recommends that shareholders ratify this appointment at the Annual Meeting. Shareholder ratification of the appointment of PwC is not required by law or otherwise. The Board is submitting this matter to shareholders for ratification because the Board believes it to be a good corporate governance practice. If the shareholders do not ratify the appointment, the Audit Committee may reconsider whether or not to retain PwC. Even if the appointment is ratified, the Audit Committee may appoint a different independent registered public accounting firm at any time during the year if, in its discretion, it determines that such a change would be in the Company's best interest and in the best interest of the Company's shareholders. A representative of PwC is expected to attend the Annual Meeting, and he or she will have the opportunity to make a statement and be available to respond to appropriate questions. For additional information regarding the Company's relationship with PwC, please refer to the Audit Committee Report above.

The Audit Committee has also adopted policies and procedures for pre-approving all non-audit work performed by PwC. The Audit Committee has pre-approved the use, as needed, of PwC for specific types of services that fall within categories of non-audit services, including various tax services. The Audit Committee receives regular updates as to the fees associated with the services that are subject to pre-approval. Services that do not fall within a pre-approved category require specific consideration and pre-approval by the Audit Committee. All services rendered by PwC in the table below were pre-approved by the Audit Committee.

The aggregate fees that the Company incurred for professional services rendered by PwC for fiscal years 2015 and 2014 were as follows:

	2015	2014
Audit Fees	$1,773,027	$1,626,000
Audit-Related Fees	175,000	130,000
Tax Fees	—	—
All Other Fees	3,600	3,600
Total Fees	$1,951,627	$1,759,600

- *Audit Fees* for fiscal years 2015 and 2014 were for professional services rendered for the integrated audit of the consolidated financial statements and internal control over financial reporting of the Company, other auditing procedures related to the adoption of new accounting pronouncements, review of other significant transactions, and related out-of-pocket expenses.
- *Audit-Related Fees* for fiscal 2015 involved professional services to assess internal controls related to the Company's implementation of certain software. Audit-Related Fees for fiscal 2014 were for professional services to assess the Company's controls related to compliance with anti-corruption laws and regulations.
- *All Other Fees* for fiscal years 2015 and 2014 consisted of software license fees.

The Board recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2016.

Vote Required

The approval of Proposal Number Five requires the affirmative vote of a majority of the votes properly cast at our Annual Meeting. Abstentions will not affect the outcome of this proposal. A broker or other nominee will generally have discretionary authority to vote on this proposal because it is considered a routine matter, and, therefore, we do not expect broker non-votes with respect to this proposal.

OTHER MATTERS

As of the date of this proxy statement, we know of no business that will be presented for consideration at the Annual Meeting, other than the items referred to above. If any other matter is properly brought before the Annual Meeting for action by shareholders, proxies in the enclosed form returned to the Company will be voted in accordance with the recommendation of the Board or, in the absence of such a recommendation, in accordance with the judgment of the proxy holder.

APPENDIX A

2015 RETAIL SURVEY PARTICIPANT LIST ("RETAIL SURVEY")

Abercrombie & Fitch Co.
Academy Sports + Outdoors
Aeropostale, Inc.
Ann Inc.
Ascena Retail Group, Inc.
Bebe Stores, Inc.
Belk, Inc.
The Bon-Ton Stores, Inc.
Charlotte Russe, Inc.
Chico's FAS, Inc.
The Children's Place, Inc.
Coach, Inc.
Deckers Outdoor Corporation
Destination Maternity Corporation
Dick's Sporting Goods, Inc.
DSW Inc.
Express, Inc.
The Finish Line, Inc.
Foot Locker, Inc.
Fossil Group, Inc.
The Gap, Inc.
Hudson's Bay Company
J. C. Penney Company, Inc.
J. Crew Group, Inc.
Kate Spade & Company
Kenneth Cole Productions, Inc.
Kohl's Corporation
L Brands, Inc.
Lands' End, Inc.
L.L. Bean, Inc.
Macy's, Inc.
The Neiman Marcus Group, Inc.
Nordstrom, Inc.
Payless Shoesource Inc.
Perry Ellis International, Inc.
PVH Corp.
QVC, Inc.
Ralph Lauren Corporation
Ross Stores, Inc.
Sears Holdings Corporation
Stage Stores, Inc.
The Talbots, Inc.
The TJX Companies, Inc.
Vera Bradley, Inc.

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APPENDIX B

CARTER'S, INC.
AMENDED AND RESTATED EQUITY INCENTIVE PLAN

1. *Definitions.*

Exhibit A, which is incorporated by reference, defines the terms used in the Plan and sets forth certain operational rules related to those terms.

2. *Purpose.*

The purpose of this amended and restated Plan is to advance the interests of the Company by enhancing the ability of the Company and its subsidiaries to attract and retain able Employees and Directors; to reward such individuals for their contributions; and to encourage such individuals to take into account the long-term interests of the Company and its subsidiaries by providing for the grant to Participants of Stock-based incentive Awards.

3. *Administration.*

The Administrator has discretionary authority, subject only to the express provisions of the Plan, to interpret the Plan; determine eligibility for and grant Awards; determine, modify or waive the terms and conditions of any Award; prescribe forms, rules and procedures; and otherwise do all things necessary to carry out the purposes of the Plan. In the case of any Award intended to be eligible for the performance-based compensation exception under Section 162(m), of the Code, the Administrator will exercise its discretion consistent with qualifying the Award for that exception. Determinations of the Administrator made under the Plan will be conclusive and will bind all parties.

4. *Effective Date and Term of Plan.*

The Plan was originally adopted on August 15, 2001 and was approved by shareholders on August 15, 2001. The Plan was amended, restated and renamed on October 10, 2003, and approved by shareholders on October 10, 2003, prior to the Company's initial public offering, and subsequently at the Company's 2004 annual meeting of shareholders on May 14, 2004. The Plan was further amended and restated and subsequently approved by shareholders at the Company's 2005 annual meeting of shareholders on May 12, 2005. The Plan was then further amended and restated and subsequently approved by shareholders at the Company's 2009 annual meeting of shareholders on May 14, 2009. The Plan was then further amended and restated and subsequently approved by shareholders at the Company's 2011 annual meeting of shareholders on May 13, 2011, effective as such date. The provisions of this amendment and restatement of the Plan shall become effective on the date on which this amendment and restatement is approved by the shareholders of the Company at the Company's 2016 annual meeting of shareholders on May 11, 2016. Except as hereinafter provided, any Award made prior to shareholder approval of the amendment and restatement set forth herein shall be subject to the terms of the Plan as in effect prior to such amendment and restatement. Notwithstanding the foregoing, an Award may be made under the terms of this amendment and restatement of the Plan but prior to shareholder approval of such amendment and restatement if the Award is conditioned upon such approval.

No ISOs may be granted under the Plan after August 15, 2011, except that only with respect to the 3,725,000 new shares of Stock that the shareholders of the Company approved on May 13, 2011, ISOs may be granted by the Company until May 13, 2021.

5. *Shares Subject to the Plan.*

(a) *Number of Shares*. The aggregate maximum number of shares of Stock that may be delivered in satisfaction of Awards under the Plan shall be 15,778,392, of which 1,600,684 shares of stock may be delivered in satisfaction of any new Awards granted after the date this amendment and restatement is approved by the shareholders of the Company. Any shares of Stock granted in connection with Options and SARs shall be counted against this limit as one share of Stock for every one share subject to the Option or SAR. Any shares of Stock granted in connection with Awards other than Options and SARs shall be counted against this limit as 1.46 shares of Stock for every one share of stock subject to the underlying Award. With respect to SARs, if a SAR is exercised the number of shares of stock deemed to have been issued under the Plan shall be the aggregate number of shares subject to the SAR and not just by the number of shares actually delivered upon exercise of the SAR. For the avoidance of doubt, if any Award granted under the Plan terminates without having been exercised in full, or is otherwise forfeited in whole or in part, or upon exercise is satisfied other than by delivery of Stock, the number of shares of Stock as to which such Award was not exercised shall be available for future grants. If shares of Stock are withheld from an Award in order to satisfy a Participant's tax withholding obligations with respect to such Award pursuant to Section 7 (a)(iv) of the Plan, the number of shares of Stock deemed to have been issued under the Plan shall be the number of shares of Stock that were subject to the Award or portion thereof so exercised or settled and not the net number of shares of Stock actually issued upon the exercise or settlement.

(b) *Shares to be Delivered*. Stock delivered under the Plan shall be authorized but unissued Stock, or if the Administrator so decides in its sole discretion, previously issued Stock acquired by the Company and held in its treasury. No fractional shares of Stock shall be delivered under the Plan.

(c) *Section 162(m) Limits*. The maximum number of shares of Stock for which Stock Options may be granted to any person in any calendar year and the maximum number of shares of Stock subject to SARs granted to any person in any calendar year will each be 1,000,000. The maximum benefit that may be paid to any person under other Awards in any calendar year will be, to the extent paid in shares, 1,000,000 shares (or their value in dollars). The Plan and Awards hereunder made to Covered Employees (as such term is defined in Section 162(m)) are intended to satisfy Section 162(m) and shall be construed in accordance with that intention.

6. *Eligibility and Participation.*

Persons eligible to receive Awards under the Plan shall be such Employees and Directors selected by the Administrator. Eligibility for ISOs is limited to Employees of the Company or of a "parent corporation" or a "subsidiary corporation" of the Company as those terms are defined in Section 424 of the Code.

7. *Terms and Conditions of Awards.*

(a) *All Awards*.

(i) *Award Provisions*. The Administrator will determine the terms of all Awards, subject to the limitations provided herein.

(ii) *Transferability*. No Award may be transferred other than by will or by the laws of descent and distribution, and during a Participant's lifetime an Award may be exercised only by him or her; *provided*, *however*, that the foregoing provisions shall not prohibit the transfer of an Award of Unrestricted Stock or, for periods after Restricted Stock ceases to be subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified conditions are not satisfied, Restricted Stock.

(iii) *Vesting, Etc*. An Award will vest or become exercisable at such time or times and upon such conditions as the Administrator shall specify. Without limiting the foregoing, the Administrator may at any time accelerate the vesting or exercisability of all or any part of an Award.

(iv) *Taxes*. The Administrator will make such provision for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back shares of Stock from an Award or permit a

Participant to tender previously owned shares of Stock (which in the case of Stock acquired from the Company shall have been owned by the Participant for such minimum time, if any, as the Administrator may determine) in satisfaction of tax withholding requirements (but not in excess of the minimum withholding required by law).

(v) *Dividend Equivalents, Etc*. With the exception of Stock Options and SARs, the Administrator may provide for the payment of amounts in lieu of cash dividends or other cash distributions with respect to Stock subject to an Award. Any entitlement to dividend equivalents or similar entitlements shall be established and administered either consistent with an exemption from or, in compliance with, the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"). In addition, any amounts payable in respect of Restricted Stock may be subject to such limits or restrictions as the Administrator may impose.

(b) *Performance-Based Awards*.

(i) *General*. The Administrator shall have the authority, at the time of grant of any Award described in this Plan to designate such Award as a Performance Award in order to qualify such Award as "performance-based compensation" under Section 162(m) of the Code. In addition, the Administrator shall have the authority to make an Award of a cash bonus to any Participant and designate such Award as a Performance Compensation Award in order to qualify such Award as "performance-based compensation" under Section 162(m) of the Code.

(ii) *Eligibility*. The Administrator will, in its sole discretion, designate in writing within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code) which Participants will be eligible to receive Performance Awards in respect of such Performance Period. However, designation of a Participant eligible to receive a Performance Award hereunder for a Performance Period shall not in any manner entitle the Participant to receive payment in respect of any Performance Award for such Performance Period. The determination as to whether or not such Participant becomes entitled to payment in respect of any Performance Award shall be decided solely in accordance with the provisions of this Section 7(b). Moreover, designation of a Participant eligible to receive a Performance Award hereunder for a particular Performance Period shall not require designation of such Participant eligible to receive a Performance Award hereunder in any subsequent Performance Period and designation of one person as a Participant eligible to receive a Performance Award hereunder shall not require designation of any other person as a Participant eligible to receive a Performance Award hereunder in such period or in any other period.

(iii) *Discretion of Administrator with Respect to Performance Awards*. With regard to a particular Performance Period, the Administrator shall have full discretion to select the length of such Performance Period (provided any such Performance Period shall be not less than one fiscal year in duration), the type(s) of Performance Awards to be issued, the Performance Criteria that will be used to establish the Performance Goal(s), the kind(s) and/or level(s) of the Performance Goal(s) that is (are) to apply to the Company and the Performance Formula. Within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), the Administrator shall, with regard to the Performance Awards to be issued for such Performance Period, exercise its discretion with respect to each of the matters enumerated in the immediately preceding sentence of this Section 7(b)(iii) and record the same in writing.

(iv) *Payment of Performance Awards*.

(A) Condition to Receipt of Payment. Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company on the last day of a Performance Period to be eligible for payment in respect of a Performance Award for such Performance Period.

(B) Limitation. A Participant shall be eligible to receive payment in respect of a Performance Award only to the extent that: (1) the Performance Goals for such period are achieved; and (2) the Performance Formula as applied against such Performance Goals determines that all or some portion of such Participant's Performance Award has been earned for the Performance Period.

(C) Certification. Following the completion of a Performance Period, the Administrator shall review and certify in writing whether, and to what extent, the Performance Goals for the Performance Period have been achieved and, if so, calculate and certify in writing the amount of the Performance Awards earned for the period based upon the Performance Formula. The Administrator shall then determine the actual size of each applicable Participant's Performance Award for the Performance Period and, in so doing, may apply negative discretion in accordance with Section 7(b)(iv)(D) hereof, if and when it deems appropriate.

(D) Use of Discretion. In determining the actual size of an individual Performance Award for a Performance Period, the Administrator may reduce or eliminate the amount of the Performance Award earned under the Performance Formula in the Performance Period through the use of Negative Discretion if, in the Administrator's sole judgment, such reduction or elimination is appropriate. The Administrator shall not have the discretion to (1) grant or provide payment in respect of Performance Awards for a Performance Period if the Performance Goals for such Performance Period have not been attained or (2) increase a Performance Award above the maximum amount payable under Section 7(b)(iv)(F) hereof.

(E) Timing of Award Payments. Performance Awards granted for a Performance Period shall be paid to Participants as soon as administratively practicable following completion of the certifications required by this Section 7(b), but in no event later than 2 1/2 months following the end of the fiscal year during which the Performance Period is completed.

(F) Maximum Award Payable. Notwithstanding any provision contained in this Plan to the contrary, the maximum Performance Award payable to any one Participant under the Plan for a Performance Period shall be as provided in Section 5(c).

(c) *Awards Requiring Exercise*.

(i) *Time and Manner of Exercise of Awards*. Any exercise of an Award shall be in writing, signed by the proper person and furnished to the Company, accompanied by (A) such documents as may be required by the Administrator and (B) payment in full as specified below. A Stock Option shall be exercisable during such period or periods as the Administrator may specify. The latest date on which a Stock Option or SAR may be exercised shall be the Expiration Date.

(ii) *Exercise Price*. The Exercise Price shall be determined by the Administrator, but shall not be less than 100% of the Fair Market Value at the time the Stock Option or SAR is granted; nor shall the Exercise Price be less, in the case of an original issue of authorized stock, than par value. No such Award, once granted, may be re-priced (which includes (i) a lowering of the Exercise Price, (ii) the cancellation of an outstanding Stock Option or SAR accompanied by the grant of a replacement Award of the same or a different type and (iii) the cancellation of a Stock Option or SAR whose Exercise Price is greater than the Fair Market Value of such Award accompanied by the payment of cash to the Participant) other than in accordance with the applicable shareholder approval requirements of the New York Stock Exchange (or the rules of such other market in which the shares of the Company's stock then are listed). In no event shall the Exercise Price of an ISO granted to a ten-percent shareholder be less than 110% of the Fair Market Value at the time the Stock Option is awarded. For this purpose, "ten-percent shareholder" shall mean any Participant who at the time of grant owns directly, or by reason of the attribution rules set forth in Section 424(d) of the Code is deemed to own, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its parent or subsidiary corporations.

(iii) *Term*. The Administrator shall determine the term of each Stock Option and SAR, provided that in no event shall such term extend beyond the Expiration Date.

(iv) *Payment of Exercise Price*. Stock purchased upon exercise of a Stock Option under the Plan shall be paid for as follows: (i) in cash, by check acceptable to the Administrator (determined in accordance with such guidelines as the Administrator may prescribe), or by money order payable to the order of the Company, or (ii) if so permitted by the Administrator, (A) through the delivery of shares of Stock (which, in the case of Stock acquired from the Company, shall have been held for at least six months unless the Administrator approves a shorter period) having a Fair Market Value on the last business day preceding the date of exercise equal to the exercise price, (B) through a broker- assisted exercise program acceptable to the Administrator, (C) by other means acceptable to the administrator or (D) by any combination of the foregoing permissible forms of payment.

(v) *Delivery of Stock*. A Participant shall not have the rights of a shareholder with regard to Awards under the Plan except as to Stock actually received by him or her under the Plan.

The Company shall not be obligated to deliver any shares of Stock under the Plan (i) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, (ii) if the outstanding Stock is at the time listed on any stock exchange, until the shares to be delivered have been listed or authorized to be listed on such exchange upon official notice of issuance, and (iii) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. Without limiting the generality of the foregoing, if the sale of Stock has not been registered under the Securities Act, the Company may require, as a condition to exercise of the Award, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of the Securities Act and may require that the certificates evidencing such Stock bear an appropriate legend restricting transfer.

If an Award is exercised by the executor or administrator of a deceased Participant, or by the person or persons to whom the Award has been transferred by the Participant's will or the applicable laws of descent and distribution, the Administrator shall be under no obligation to deliver Stock pursuant to exercise until the Administrator is satisfied as to the authority of the person or persons exercising the Award.

(vi) *ISOs*. In the case of an ISO, the Administrator will require as a condition of exercise that the Participant exercising the ISO agree to inform the Company promptly of any disposition (within the meaning of Section 424(c) of the Code and the regulations thereunder) of Stock received upon exercise of the ISO.

(d) *Awards Not Requiring Exercise*.

Awards of Restricted Stock and Unrestricted Stock may be made in exchange for past services or other lawful consideration.

(e) *Section 409A*.

Notwithstanding any other provision hereunder, this Plan and all payments hereunder are intended to comply with the requirements of Section 409A, including transition relief and exemptive provisions thereunder, and shall be construed and administered accordingly. Notwithstanding anything to the contrary in the Plan, neither the Company, nor any Affiliate, nor the Administrator, nor any person acting on behalf of the Company, any Affiliate, or the Administrator, shall be liable to any Participant or to the estate or beneficiary of any Participant or to any other holder of an Award by reason of any acceleration of income, or any additional tax, asserted by reason of the failure of an Award to satisfy the requirements of Section 409A of the Code.

8. *Effect of Certain Transactions.*

(a) *Mergers, Etc*.

Except as otherwise provided in an Award, in the event of a Covered Transaction in which there is an acquiring or surviving entity the following rules shall apply:

(i) *Awards Other Than Stock Options*.

(A) The Administrator may provide for the assumption of some or all outstanding Awards, or for the grant of new awards in substitution therefore, by the acquirer or survivor or an affiliate of the acquirer or survivor, in each case on such terms and subject to such conditions as the Administrator determines.

(B) In the absence of such an assumption or if there is no substitution, except as otherwise provided in the Award, each SAR and other Award requiring exercise (other than Stock Options) will become fully exercisable, and the delivery of shares of Stock issuable under each outstanding Award of Deferred Stock will be accelerated and such shares will be issued, prior to the Covered Transaction, in each case on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Administrator, following exercise of the Award or the issuance of the shares, as the case may be, to participate as a shareholder in the Covered Transaction, and the Award will terminate upon consummation of the Covered Transaction, *provided*, that the Administrator may not exercise its discretion under this Section 8(a)(i)(B) with respect to an Award or portion thereof providing for "nonqualified deferred compensation" subject to Section 409A in a manner that would constitute an extension or acceleration of, or other change in, payment terms if such change would be inconsistent with the applicable requirements of Section 409A.

(C) In the case of Restricted Stock, the Administrator may require that any amounts delivered, exchanged or otherwise paid in respect of such Stock in connection with the Covered Transaction be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan, and, for the avoidance of doubt, in the absence of any such action by the Administrator, all forfeiture and transfer restrictions will lapse.

(ii) *Stock Options*.

(A) Subject to Section 8(a)(ii)(B) below, all outstanding Stock Options will cease to be exercisable and will be forfeited (after any payment or other consideration deemed equitable by the Administrator for the termination of any vested portion of any Award is made), as of the effective time of the Covered Transaction; provided, that the Administrator may in its sole discretion on or prior to the effective date of the Covered Transaction, (1) make any outstanding Stock Options exercisable in part or in full, (2) remove any performance or other conditions or restrictions on any Stock Options, and/or (3) in the event of a Covered Transaction under the terms of which holders of the Stock of the Company will receive upon consummation thereof a payment (whether cash, non-cash or a combination of the foregoing) for each share of such Stock surrendered in the Covered Transaction, make or provide for a payment (whether cash, non-cash or a combination of the foregoing) to the Participant equal to the difference between (A) the Fair Market Value times the number of shares of Stock subject to outstanding Stock Options (to the extent then exercisable at prices not in excess of the Fair Market Value) and (B) the aggregate Exercise Price of all such outstanding Stock Options in exchange for the termination of such Stock Options.

(B) With respect to an outstanding Stock Option held by a Participant who, following the Covered Transaction, will be employed by or otherwise providing services to an entity which is a surviving or acquiring entity in the Covered Transaction or an affiliate of such an entity, the Administrator may at or prior to the effective time of the Covered Transaction, in its sole discretion and in lieu of the action described in paragraph 8(a)(ii)(A) above, arrange to have such surviving or acquiring entity or affiliate assume any Stock Option held by such Participant outstanding hereunder or grant a replacement award which, in the judgment of the Administrator, is substantially equivalent to any Stock Option being replaced.

The Administrator may grant Awards under the Plan in substitution for awards held by Employees and Directors of another corporation who concurrently become Employees or Directors of the Company or a subsidiary of the Company as the result of a merger or consolidation of that corporation with the Company or a subsidiary of the Company, or as the result of the acquisition by the Company or a subsidiary of the Company of property or stock of that corporation. The Company may direct that substitute Awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances.

Notwithstanding any provision of the Plan to the contrary, in the event of a Corporate Transaction, the Administrator may in its discretion and upon at least five (5) days' advance notice to the affected persons, cancel any outstanding Awards and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such Awards based upon the price per share of Stock received or to be received by other shareholders of the Company in the event. In the case of any Option or Stock Appreciation Right with an Exercise Price that equals or exceeds the price to be paid for a share of Stock in connection with the Corporate Transaction, the Administrator may cancel the Option or Stock Appreciation Right without the payment of consideration therefor.

(b) *Changes in and Distributions with Respect to the Stock*.

(i) *Basic Adjustment Provisions*. In the event of a stock dividend, stock split or combination of shares (including a reverse stock split), recapitalization or other change in the Company's capital structure, the Administrator will make appropriate adjustments to the maximum number of shares that may be delivered under the Plan under Section 5(a) and to the maximum share limits described in Section 5(c), and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to Awards then outstanding or subsequently granted, any Exercise Prices relating to Awards and any other provision of Awards affected by such change, whose determination will be binding on all persons.

(ii) *Certain Other Adjustments*. In the case of adjustments made pursuant to this Section 8(b), unless the Administrator specifically determines that such adjustment is in the best interests of the Company or its Affiliates, the Administrator shall, in the case of ISOs, ensure that any adjustments under this Section 8(b) will not constitute a modification, extension or renewal of the ISOs within the meaning of Section 424(h)(3) of the Code and in the case of Options that are not ISOs, ensure that any adjustments under this Section 8(b) will not constitute a modification of such Options within the meaning of Section 409A of the Code. Any adjustments made under this Section 8(b) shall be made in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act. Further, with respect to Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code, any adjustments or substitutions will not cause the Company to be denied a tax deduction on account of Section 162(m) of the Code. The Company shall give each Participant notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

9. *Termination of Employment.*

In the case of any Award, the Administrator may, through agreement with the Participant, (including, without limitation, any shareholder agreement of the Company to which the Participant is a party) resolution, or otherwise, provide for post-termination exercise provisions different from those expressly set forth in this Section 9, including without limitation the vesting immediately prior to termination of all or any portion of an

Award not otherwise vested prior to termination, and terms allowing a later exercise by a former Employee or Director (or, in the case of a former Employee or Director who is deceased, the person or persons to whom the Award is transferred by will or the laws of descent and distribution) as to all or any portion of the Award not exercisable immediately prior to termination of Employment, but in no case may an Award be exercised after the Expiration Date. If the Administrator does not otherwise provide for such provisions and if a Participant's Employment terminates prior to the Expiration Date (including by reason of death) the following provisions shall apply:

(a) All Stock Options and SARs held by the Participant immediately prior to the cessation of the Participant's Employment that are not vested immediately prior to the cessation of Employment shall automatically terminate upon such cessation of Employment.

(b) To the extent vested immediately prior to cessation of Employment, the Stock Option or SAR shall continue to be vested and shall be exercisable thereafter during the period prior to the Expiration Date for 60 days following such cessation (120 days in the event that a Participant's service terminates by reason of death); *provided*, *however*, that if the Participant's Employment is terminated "for Cause" as defined herein, all unvested or unexercised Awards shall terminate immediately.

(c) Except as otherwise provided in an Award, after completion of the exercise period described in paragraph (b) above, the Awards described in paragraph (b) above shall terminate to the extent not previously exercised, expired, or terminated.

No Award requiring exercise shall be exercised or surrendered in exchange for a cash payment after the Expiration Date.

10. *Employment Rights.*

Neither the adoption of the Plan nor the grant of Awards shall confer upon any Participant any right to continue as an Employee or Director of the Company or any subsidiary or affect in any way the right of the Company or a subsidiary to terminate the Participant's relationship at any time. Except as specifically provided by the Administrator in any particular case, the loss of existing or potential profit on Awards granted under this Plan shall not constitute an element of damages in the event of termination of the relationship of a Participant even if the termination is in violation of an obligation of the Company to the Participant by contract or otherwise.

11. *Effect, Discontinuance, Cancellation, Amendment, and Termination.*

Neither adoption of the Plan nor the grant of Awards to a Participant shall affect the Company's right to make awards to such Participant that are not subject to the Plan, to issue to such Participant Stock as a bonus or otherwise, or to adopt other plans or compensation arrangements under which Stock may be issued.

The Administrator may at any time discontinue granting Awards under the Plan. With the consent of the Participant, the Administrator may at any time, subject to the limitations of the second sentence of Section 8(b)(ii), cancel an existing Award in whole or in part and grant another Award for such number of shares as the Administrator specifies. The Administrator may, but shall not be obligated to, at any time or times amend the Plan or any outstanding Award for the purpose of satisfying the requirements of Sections 409A and 422 of the Code or of any changes in applicable laws or regulations or for any other purpose that may at the time be permitted by law, or may at any time terminate the Plan as to any further grants of Awards; *provided*, that except to the extent expressly required by the Plan, no such amendment shall adversely affect the rights of any Participant (without his or her consent) under any Award previously granted, nor shall such amendment, without the approval of the shareholders of the Company, effectuate a change for which shareholder approval is required under the listing standards of the New York Stock Exchange (or the rules of such other market in which the shares of the Company's Stock then are listed) or in order for the Plan to continue to qualify for the Award of incentive stock options under Section 422 of the Code.

12. *Choice of Law.*

The law of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of law rules.

EXHIBIT A

Definition of Terms

The following terms, when used in the Plan, will have the meanings and be subject to the provisions set forth below:

"**Administrator**": The committee of the Board, consisting of two or more Directors, all of whom shall be "non-employee Directors" within the meaning of Rule 16b-3 under the 1934 Act and "outside Directors" within the meaning of Section 162(m). In addition, membership of the committee shall satisfy such independence or other requirements as may be imposed by the rules of the New York Stock Exchange (or the rules of such other market in which the shares of the Company's Stock then are listed). The Administrator may delegate any of its duties and responsibilities with respect to any aspect of the Plan's administration to such persons as it deems appropriate, so long as (and only to the extent that) such delegation (i) is permitted by applicable laws, the listing standards of the New York Stock Exchange (or the rules of such other market in which the shares of the Company's Stock are listed), and the Company's governance documents, as in effect from time to time, (ii) does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act, and (iii) with respect to Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code, will not cause the Company to be denied a tax deduction on account of Section 162(m) of the Code.

"**Affiliate**": Any corporation or other entity owning, directly or indirectly, 50% or more of the outstanding Stock of the Company, or in which the Company or any such corporation or other entity owns, directly or indirectly, 50% of the outstanding capital stock (determined by aggregate voting rights) or other voting interests.

"**Award**": Any or a combination of the following:

(i) Stock Options;

(ii) SARs;

(iii) Restricted Stock;

(iv) Unrestricted Stock;

(v) Deferred Stock; and

(vi) Performance Awards.

"**Board**": The Board of Directors of the Company.

"**Cause**" means:

With respect to any Employee: (a) If the Employee is a party to an employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Cause, the definition contained therein; or (b) if no such agreement exists, or if such agreement does not define Cause, the determination by the Administrator (or the authorized delegate of the Administrator, to the extent applicable), in its reasonable judgment, that any one or more of the following has occurred:

(i) the Employee shall have been convicted of, or shall have pleaded guilty or *nolo contendere* to, any felony or any crime involving dishonesty or moral turpitude;

(ii) the Employee shall have committed any fraud, theft, embezzlement, misappropriation of funds, breach of fiduciary duty or act of dishonesty;

(iii) the Employee shall have breached in any material respect any of the provisions of any agreement between the Employee and the Company or an Affiliate;

(iv) the Employee shall have engaged in conduct likely to make the Company or any of its Affiliates subject to criminal liabilities other than those arising from the Company's normal business activities; or

(v) the Employee shall have willfully engaged in any other conduct that involves a breach of fiduciary obligation on the part of the Employee or otherwise could reasonably be expected to have a material adverse effect upon the business, interests or reputation of the Company or any of its Affiliates.

With respect to any Director, a determination by a majority of the disinterested Board members that the Director has engaged in any of the following: (i) malfeasance in office; (ii) gross misconduct or neglect; (iii) false or fraudulent misrepresentation inducing the director's appointment; (iv) willful conversion of corporate funds; or (v) repeated failure to participate in Board meetings on a regular basis despite having received proper notice of the meetings in advance. The Administrator (or the authorized delegate of the Administrator, to the extent applicable), in its absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause.

"**Code**": The U.S. Internal Revenue Code of 1986, as from time to time amended and in effect, or any successor statute as from time to time in effect.

"**Company**": Carter's, Inc., a Delaware corporation.

"**Covered Transaction**": Any of the following: (i) a person (or more than one person acting as a group) acquires ownership of stock of the Company that, together with the stock held by such person or group, constitutes more than 50% of the total Fair Market Value or total voting power of the Stock of the Company; provided, that, a Control Transaction shall not occur if any person (or more than one person acting as a group) owns more than 50% of the total Fair Market Value or total voting power of the Stock of the Company and acquires additional Stock; (ii) one person (or more than one person acting as a group) acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition) ownership of the Stock of the Company possessing 50% or more of the total voting power of the stock of such corporation; (iii) a majority of the members of the Board are replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the Board before the date of appointment or election; or (iv) one person (or more than one person acting as a group), acquires all of substantially all of the Company's assets. Where a Covered Transaction involves a tender offer that is reasonably expected to be followed by a merger described in clause (i) (as determined by the Administrator), the Covered Transaction shall have deemed to have occurred upon the consummation of the tender offer.

"**Deferred Stock**": An unfunded and unsecured promise to deliver Stock or other securities in the future on specified terms.

"**Director**" means a member of the Board.

"**Employee**": Any person who is employed by the Company or an Affiliate; provided, that, for purposes of determining eligibility to receive ISOs, an Employee shall mean an employee of the Company or an Affiliate within the meaning of Section 424 of the Code.

"**Employment**": A Participant's employment or other service relationship with the Company and its Affiliates. Employment will be deemed to continue, unless the Administrator expressly provides otherwise, so long as the Participant is employed by, or otherwise is providing services in a capacity described in Section 6 to the Company or its Affiliates. If a Participant's employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, the Participant's Employment will be deemed to have terminated when the entity ceases to be an Affiliate unless the Participant transfers Employment to the Company or its remaining Affiliates.

"**Exercise Price**": The price at which a share of Stock may be purchased under a Stock Option or the value an increase above which may allow Stock to be purchased under a SAR.

"**Exchange Act**": The United States Securities Exchange Act of 1934, as amended.

"**Expiration Date**": In the case of an Award requiring exercise, the date which is ten years (five years in the case of an ISO granted to a "ten percent shareholder" as defined in Section 7(c)(ii)) from the date the Award was granted or such earlier date as may be specified by the Administrator at the time the Award is granted.

"**Fair Market Value**": The value of one share of Stock, determined as follows:

(i) if the Stock is listed on a national securities exchange (such as the New York Stock Exchange) or is quoted on The NASDAQ Stock Market ("NASDAQ"), the closing price of a share of Stock on the relevant date (or, if such date is not a business day or a day on which quotations are reported, then on the immediately preceding date on which quotations were reported), as reported by the principal national exchange on which such shares are traded (in the case of an exchange) or by NASDAQ, as the case may be;

(ii) if the Stock is not listed on a national securities exchange or quoted on NASDAQ, but is actively traded in the over-the-counter market, the average of the closing bid and asked prices for a share of the Stock on the relevant date (or, if such date is not a business day or a day on which the quotations are reported, then on the immediately preceding date on which quotations were reported), or the most recent date for which such quotations are reported; and

(iii) if, on the relevant date, the Stock is not publicly traded or reported as described in (i) or (ii) above, the value determined in good faith in accordance with such reasonable valuation method as the Administrator may determine.

"**ISO**": A Stock Option intended to be an "incentive stock option" within the meaning of Section 422 of the Code. Each Stock Option granted pursuant to the Plan will be treated as providing by its terms that it is to be a non-incentive stock option unless, as of the date of grant, it is expressly designated as an ISO.

"**Participant**": A person who is granted an Award under the Plan.

"**Performance Award**": An Award designated by the Administrator as a Performance Award pursuant to Section 7(b) of the Plan.

"**Performance Criteria**": The criterion or criteria that the Administrator shall select for purposes of establishing the Performance Goal(s) for a Performance Period with respect to any Performance Award under the Plan. The Performance Criteria that will be used to establish the Performance Goal(s) shall be based on the attainment of specific levels of performance of the Company (or Affiliate, division, business unit or operational unit of the Company) and shall be limited to the following: sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; shareholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings.

Any one or more of the above Performance Criteria may be used on an absolute or relative basis to measure the performance of the Company and/or an Affiliate as a whole or any division, subsidiary, line of business, operational unit, project or geographical basis of the Company and/or an Affiliate or any combination thereof, as the Administrator may deem appropriate, or as compared to the performance of a group of comparable companies, or published or special index that the Administrator, in its sole discretion, deems appropriate, The Administrator also has the authority to provide for accelerated vesting of any Performance Award based on the achievement of Performance Goals pursuant to the Performance Criteria specified above. To the extent required under Section 162(m) of the Code, the Administrator shall, within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period. In the event that applicable tax and/or securities laws change to permit the Administrator discretion to alter the governing Performance Criteria without obtaining shareholder approval of such changes, the Administrator shall have sole discretion to make such changes without obtaining shareholder approval.

"**Performance Formula**" means, for a Performance Period, the one or more objective formulas applied against the relevant Performance Goal to determine, with regard to the Performance Award of a particular Participant, whether all, some portion but less than all, or none of the Performance Award has been earned for the Performance Period.

"**Performance Goals**" means, for a Performance Period, the one or more goals established by the Administrator for the Performance Period based upon the Performance Criteria. The Administrator is authorized at any time during the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), or at any time thereafter (but only to the extent the exercise of such authority after such period would not cause the Performance Awards granted to any Participant for the Performance Period to fail to qualify as "performance-based compensation" under Section 162(m) of the Code), in its sole and absolute discretion, to adjust or modify the calculation of a Performance Goal for such Performance Period to the extent permitted under Section 162(m) of the Code in order to prevent the dilution or enlargement of the rights of Participants based on the following events: (i) asset write-downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual and/or infrequently occurring items as presented in the Company's financial statements; (vi) acquisitions or divestitures; (vii) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (viii) foreign exchange gains and losses; and (ix) a change in the Company's fiscal year.

"**Performance Period**" means the one or more periods of time [not less than one fiscal quarter in duration], as the Administrator may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of a Performance Award.

"**Plan**": The Carter's, Inc. Amended and Restated Equity Incentive Plan, as from time to time amended and in effect.

"**Restricted Stock**": An Award of Stock for so long as the Stock remains subject to restrictions requiring that it be redelivered or offered for sale to the Company if specified conditions are not satisfied.

"**Section 162(m)**": Section 162(m) of the Code.

"**SARs**": Rights entitling the holder upon exercise to receive Stock equal in value to the excess of the Fair Market Value of the shares of Stock subject to the right over the Fair Market Value of such shares of Stock on the date of grant.

"**Securities Act**": The Securities Act of 1933, as amended.

"**Stock**": Common Stock of the Company, par value $.01 per share.

"**Stock Options**": Options entitling the recipient to acquire shares of Stock upon payment of the exercise price.

"**Unrestricted Stock**": An Award of Stock not subject to any restrictions under the Plan.

APPENDIX C

CARTER'S, INC.

AMENDED AND RESTATED

ANNUAL INCENTIVE COMPENSATION PLAN

Effective as of May 11, 2016

1. *Purpose of the Plan*

The purpose of the Plan is to provide a means of paying incentive compensation to those Employees (including Employees who may also be officers and directors) in managerial and other important positions who contribute materially to the success of the business of the Company by their ability, ingenuity and industry and to reward such contributions by permitting such Employees to share in the results of such success. To accomplish these objectives the Plan provides for the Committee to grant awards providing for the payment of incentive compensation upon the achievement of certain Performance Goals, and to establish, in good faith, such Performance Goals. After such Performance Goals are so fixed an Incentive Compensation Reserve is to be established. Such reserve shall be credited monthly with the total amount of incentive compensation that may be payable to Participants based upon the Performance Goals established by the Committee, and all payments of incentive compensation which may be made to such Employees in satisfaction of awards granted hereunder shall be made from such reserve.

2. *Definitions*

As used herein the following words and phrases shall have the following meanings:

(a) "Affiliate" shall mean any corporation or other entity owning, directly or indirectly, 50% or more of the outstanding stock of the Company, or in which the Company or any such corporation or other entity owns, directly or indirectly, 50% of the outstanding capital stock (determined by aggregate voting rights) or other voting interests.

(b) "Board of Directors" shall mean the Board of Directors of Carter's, Inc.

(c) "Cause" shall mean (a) in the case of any Employee who is a party to an Employment Agreement that defines "cause," "cause" as is defined in such Employment Agreement or (b) in the case of any other Employee, the determination by the Committee (or the authorized delegate of the Committee, to the extent applicable), in its reasonable judgment, that any one or more of the following has occurred: (i) the Employee shall have been convicted of, or shall have pleaded guilty or nolo contendere to, any felony or any crime involving dishonesty or moral turpitude; (ii) the Employee shall have committed any fraud, theft, embezzlement, misappropriation of funds, breach of fiduciary duty or act of dishonesty; (iii) the Employee shall have breached in any material respect any of the provisions of any agreement between the Employee and the Company or an Affiliate; (iv) the Employee shall have engaged in conduct likely to make the Company or any of its Affiliates subject to criminal liabilities other than those arising from the Company's normal business activities; or (v) the Employee shall have willfully engaged in any other conduct that involves a breach of fiduciary obligation on the part of the Employee or otherwise could reasonably be expected to have a material adverse effect upon the business, interests or reputation of the Company or any of its Affiliates. The Committee (or the authorized delegate of the Committee, to the extent applicable), in its absolute discretion, shall determine the effect of all matters and questions relating to whether an Employee has been discharged for Cause.

(d) "Committee" shall mean the Compensation Committee of the Board of Directors or, if the Board of Directors has not appointed a Compensation Committee, any other committee of the Board of Directors as established by the Board of Directors. The Committee may delegate any of its duties and responsibilities with respect to any aspect of the Plan's administration to such persons as it deems appropriate, so long as (and only to the extent that) such delegation (i) is permitted by applicable laws, the listing standards of the New York Stock Exchange (or the rules of such other market in which the shares of the Company's Stock are listed), and the Company's governance documents, as in effect from time to time, (ii) does not adversely affect the exemption provided pursuant to Rule 16b-3 under the United States Securities Exchange Act of 1934, as amended, and (iii) with respect to Awards intended to qualify as "performance-based compensation" under Section 162(m) of the Code, will not cause the Company to be denied a tax deduction on account of Section 162(m) of the Code.

(e) "Company" shall mean Carter's, Inc., and its respective successors.

(f) "Employee" shall mean any person, including any officer, who is regularly employed by the Company or a Subsidiary at any time during the year on a salaried basis. Any person who serves the Company or a Subsidiary solely as a director shall not be considered an Employee.

(g) "Employment Agreement" shall mean a written employment agreement between an Employee and the Company or a Subsidiary as in effect at the relevant time.

(h) "Incentive Compensation Award" shall mean any award that is not a Performance Award.

(i) "Incentive Compensation Reserve" shall mean an account established and maintained on the books of the Company to which there shall be credited for each year the amounts of incentive compensation which may be payable to Participants under the Plan, which account shall be credited pursuant to the terms of the Plan.

(j) "Independent Auditors" shall mean, with respect to any year, the independent auditors who have been authorized by the Board of Directors to audit the financials of the Company for that year.

(k) "Participant" shall mean an Employee who has become a participant pursuant to the provisions of Section 3 of the Plan and is therefore eligible for an award hereunder.

(l) "Plan" shall mean this Amended and Restated Annual Incentive Compensation Plan in its entirety, including any amendments thereto as herein permitted.

(m) "Performance Award" shall mean an award designated by the Committee as a Performance Award pursuant to Section 12 of the Plan.

(n) "Performance Criteria" shall mean specified criteria, goals, standards or formulas the satisfaction of which is a condition for the grant, vesting or payment of an award. With respect to any Incentive Compensation Awards, a Performance Criterion measure and any targets with respect thereto determined by the Committee need not be based upon an increase, a positive or improved result or avoidance of loss. With respect to any Performance Awards, the Performance Criteria used to establish the applicable Performance Goal(s) shall be based on the attainment of specific levels of performance of the Company (or Affiliate, division, business unit or operational unit of the Company) and shall be limited to the following: sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings. Any one or more of the above Performance Criteria may be used on an absolute or relative basis to measure the performance of the Company and/or an Affiliate (i) as a whole or with respect to any division, subsidiary, line of business, operational unit, project or geographical basis of the Company and/or an Affiliate or any combination thereof, as the Committee may deem appropriate, or (ii) as compared to the performance of a group of comparable companies, or published or special index that the Committee, in its sole discretion, deems appropriate. To the extent required under Section 162(m) of the Code, the Committee shall, within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period. In the event that applicable tax and/or securities laws change to permit the Committee discretion to alter the governing Performance Criteria without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval.

(o) "Performance Formula" shall mean, for a Performance Period, the one or more objective formulas applied against the relevant Performance Goal to determine, with regard to a Performance Award of a particular Participant, whether all, some portion but less than all, or none of the Performance Award has been earned for the Performance Period.

(p) "Performance Goals" shall mean, for a Performance Period, the one or more goals established by the Committee for the Performance Period based upon the Performance Criteria.

(q) "Performance Period" shall mean a fiscal year of the Company.

(r) "Subsidiary" shall mean a corporation, foreign or domestic, a majority of the voting stock of which is owned or controlled, directly or indirectly by the Company.

3. *Participants*

The Committee in its sole discretion shall, prior to the first day of each fiscal year, designate which Employees shall become Participants for such fiscal year. In addition, in the event that (a) an Employee is hired into or promoted into a position during a fiscal year and the Committee, in its sole discretion, has designated that Employees in such position shall become Participants for such fiscal year, or (b) the Committee designates one or more Employees as eligible to become Participants during a fiscal year, such Employees shall become Participants on the date of such event. The Committee may prorate any award to a Participant described in the preceding sentence to the extent that the Committee deems necessary or desirable.

4. *Incentive Compensation Awards*

(a) With respect to Incentive Compensation Awards, the Committee shall, on or before the close of the first quarter of each fiscal year, establish such Performance Goals as it deems appropriate for determining the aggregate amount of incentive compensation which may be allowed to each of the Participants in respect to the forthcoming year and shall notify each Participant of the Performance Goals so established.

(b) With respect to Incentive Compensation Awards, the Committee is authorized, in its sole and absolute discretion, to adjust or modify the calculation of any Performance Goal subsequent to its establishment in order to prevent the dilution or enlargement of the rights of Participants based on the following events: (i) asset write-downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual and/or infrequently occurring items as presented in the Company's financial statements; (vi) acquisitions or divestitures; (vii) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (viii) foreign exchange gains and losses; and (ix) a change in the Company's fiscal year.

(c) The aggregate amount of incentive compensation to be credited to the Incentive Compensation Reserve for each year shall be the sum of total amounts attainable by Participants as awards under the Performance Goals established by the Committee pursuant to Section 4(a) or Section 12.

5. *Allocation of Incentive Compensation Awards to Individuals*

As soon as practicable after the end of each fiscal year, the Committee shall in good faith determine in its sole discretion the aggregate amount to be allocated to each Participant under the Plan for the preceding year. With respect to any Incentive Compensation Awards, such determination shall take into account the Performance Goals established pursuant to Section 4 and the recommendation of the Chief Executive Officer of the Company. With respect to any Incentive Compensation Awards, such determination shall be made pursuant to Section 12. In the event that part or all of the aggregate amount of incentive compensation credited to the Incentive Compensation Reserve is not allocated to individual Participants' accounts, such unallocated amounts shall be released from the Incentive Compensation Reserve and shall become part of the general funds of the Company.

6. *Payment of Incentive Compensation*

(a) The total amount allocated and credited to an individual Participant's account in the Incentive Compensation Reserve pursuant to Section 5 shall be known as the Participant's "Incentive Share." A Participant's Incentive Share shall be paid to the Participant in cash as soon as practicable after the Committee's actions pursuant to Section 5, but in no event later than March 15 of the year following the year in respect of which such allocation is made or if the Company's audited financial statements have not been issued as of such date, than no later than December 31 of the year in which such allocation is made.

(b) If the employment of a Participant is terminated by the Company (or any of its Subsidiaries) or the Participant for any reason prior to such date, the Committee may determine in its sole discretion the amount of incentive compensation, if any, which it will award to such Participant. The Committee may or may not take into account the Performance Criteria established pursuant to Section 4(a) in making such determination.

(c) If an individual is employed during the year and is designated as a Participant for the remainder of the year, such Participant shall be entitled to the amount of incentive compensation, if any, which the Committee in its sole discretion may determine, provided that in no event shall any Participant's Incentive Share be reduced in connection with the adding of additional new Participants during the year.

7. *Incentive Compensation Reserve*

(a) The Company shall establish on its books an account known as the Incentive Compensation Reserve to which there shall be credited for each year the amounts of incentive compensation payable to Participants. The Company shall not be required to segregate any of its assets for the Incentive Compensation Reserve and the amount shall be available for the general corporate purposes of the Company. No Participant or beneficiary of any Participant may assert any right or claim under the Plan against any specific assets of the Company or its Subsidiaries or the Incentive Compensation Reserve as such.

(b) In the event of a Participant's death, payments hereunder shall be made to the estate of the Participant.

8. *Amendment*

The Committee may from time to time amend, modify, change or terminate in whole or in part any or all of the provisions of the Plan. No such amendment, modification or change shall have the effect of reducing the amount then credited to the account of any Participant in the Incentive Compensation Reserve. If the Plan is terminated and superseded by a new incentive compensation plan having substantially similar provisions, the accounts of Participants in the Incentive Compensation Reserve, may, at the discretion of the Committee, be continued in an incentive compensation reserve under such new plan; in such event, all amounts credited under the Plan shall be distributed at such times and in such manner as if the Plan had remained in effect, provided however, that the Committee may, in its discretion, direct that such distributions be made at any earlier date. If the Plan is terminated and the Committee does not elect to continue the accounts of Participants in an incentive compensation reserve under a new incentive compensation plan, all amounts credited under the Plan shall be distributed to the Participants or their beneficiaries as soon as practicable, but in no event later than the 30th day following the date of termination of the Plan.

9. *Effective Date*

The Plan was originally adopted on February 10, 1989. The Plan was amended and restated effective with respect to the fiscal year beginning December 29, 2002. The Plan was further amended and restated and subsequently approved by shareholders at the Company's 2006 annual meeting of shareholders on May 11, 2006. The Plan was then further amended and restated and subsequently approved by shareholders at the Company's 2011 annual meeting of shareholders on May 13, 2011, effective on such date. The provisions of this amendment and restatement of the Plan shall become effective on the date on which this amendment and restatement is approved by the shareholders of the Company at the Company's 2016 annual meeting of shareholders on May 11, 2016.

10. *Miscellaneous*

(a) No payment under the Plan shall be subject to anticipation, alienation, transfer or assignment and any attempt to anticipate, alienate, transfer or assign the same shall be void.

(b) The Plan shall not constitute an exclusive method of providing incentive or other additional compensation to Employees, nor shall it impair or limit the right of the Company to fix and to change from time to time the basic compensation payable to any Employee.

(c) Participation in the Plan shall not confer upon the Participant any right to continue in the employ of the Company or any Subsidiary, or affect the right of the Company or any Subsidiary to terminate the employment of the Participant with or without Cause.

11. *Administration*

(a) The Plan shall be administered by, or under the direction of, the Committee. The Committee shall have the exclusive right to interpret and construe the provisions of the Plan and any construction or interpretation adopted by the Committee shall be conclusive and binding on the Participants and their beneficiaries. With respect to an award to which Section 12 applies, the Committee will exercise its discretion consistent with qualifying such award as performance-based within the meaning of Section 162(m) of the Code.

(b) Any determination of EBITDA, net income or other financial results which may serve as Performance Criteria for the determination of awards and any determinations regarding the status of the Incentive Compensation Reserve made by the officers of the Company having responsibility for financial reporting and internal auditing procedures shall be subject to review and approval by the Committee after consultation, if deemed appropriate by the Committee, with the Independent Auditors.

12. *Performance-Based Awards Under Code Section 162(m)*

(a) *General*. The Committee shall have the authority, at the time of grant of any award described in the Plan, to designate such award as a Performance Award in order to qualify such award as "performance-based compensation" under Section 162(m) of the Code. In the case of any award to which this Section 12 applies, the term "Committee" shall mean a committee of the Board of Directors, consisting of two or more directors, all of whom shall be "outside directors" within the meaning of Section 162(m) of the Code.

(b) *Eligibility*. The Committee will, in its sole discretion, designate in writing within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code) which Participants will be eligible to receive Performance Awards in respect of such Performance Period. However, designation of a Participant eligible to receive a Performance Award hereunder for a Performance Period shall not in any manner entitle the Participant to receive payment in respect of any Performance Award for such Performance Period. The determination as to whether or not such Participant becomes entitled to payment in respect of any Performance Award shall be decided solely in accordance with the provisions of this Section 12. Moreover, designation of a Participant eligible to receive a Performance Award hereunder for a particular Performance Period shall not require designation of such Participant eligible to receive a Performance

Award hereunder in any subsequent Performance Period and designation of one person as a Participant eligible to receive a Performance Award hereunder shall not require designation of any other person as a Participant eligible to receive a Performance Award hereunder in such period or in any other period.

(c) *Discretion of Committee with Respect to Performance Awards*. With regard to a particular Performance Period, the Committee shall have full discretion to select the Performance Criteria that will be used to establish the Performance Goal(s), the kind(s) and/or level(s) of the Performance Goal(s) that is (are) to apply and the Performance Formula. Within the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), the Committee shall, with regard to the Performance Awards to be issued for such Performance Period, exercise its discretion with respect to each of the matters enumerated in the immediately preceding sentence of this Section 12(c) and record the same in writing. Furthermore, the Committee is authorized at any time during the first 90 days of a Performance Period (or, if longer or shorter, within the maximum period allowed under Section 162(m) of the Code), or at any time thereafter (but only to the extent the exercise of such authority after such period would not cause the Performance Awards granted to any Participant for the Performance Period to fail to qualify as “performance-based compensation” under Section 162(m) of the Code), in its sole and absolute discretion, to adjust or modify the calculation of a Performance Goal for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants based on the following events: (i) asset write-downs; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax laws, accounting principles, or other laws or regulatory rules affecting reported results; (iv) any reorganization and restructuring programs; (v) unusual and/or infrequently occurring items as presented in the Company’s financial statements; (vi) acquisitions or divestitures; (vii) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (viii) foreign exchange gains and losses; and (ix) a change in the Company’s fiscal year.

(d) *Payment of Performance Awards*.

(i) Condition to Receipt of Payment. Unless otherwise provided in the applicable award agreement, a Participant must be employed by the Company on the payment date for the applicable Performance Award to be eligible for payment in respect of such Performance Award for such Performance Period.

(ii) Limitation. A Participant shall be eligible to receive payment in respect of a Performance Award only to the extent that: (1) the Performance Goals for such period are achieved; and (2) the Performance Formula as applied against such Performance Goals determines that all or some portion of such Participant’s Performance Award has been earned for the Performance Period.

(iii) Certification. Following the completion of a Performance Period, the Committee shall review and certify in writing whether, and to what extent, the Performance Goals for the Performance Period have been achieved and, if so, calculate and certify in writing the amount of the Performance Awards earned for the period based upon the Performance Formula. The Committee shall then determine the actual amount of each applicable Participant’s Performance Award for the Performance Period and, in so doing, may apply negative discretion in accordance with Section 12(d)(iv) hereof, if and when it deems appropriate.

(iv) Use of Discretion. In determining the actual amount of an individual Performance Award for a Performance Period, the Committee may reduce or eliminate the amount of the Performance Award earned under the Performance Formula in the Performance Period through the use of negative discretion if, in the Committee’s sole judgment, such reduction or elimination is appropriate. The Committee shall not have the discretion to (1) grant or provide payment in respect of Performance Awards for a Performance Period if the Performance Goals for such Performance Period have not been attained, or (2) increase a Performance Award above the maximum amount payable under Section 12(d)(vi) hereof. The Committee shall not exercise its discretion to reduce the amount of a Performance Award on account of the addition of new Participants during a Performance Period. If the employment of a Participant is terminated by the Company (or any of its Subsidiaries) or the Participant for any reason prior to the end of a Performance Period, the Committee may determine in its sole discretion the amount of incentive compensation, if any, which it will award to such Participant.

(v) Timing of Award Payments. Performance Awards granted for a Performance Period shall be paid to Participants as soon as administratively practicable following completion of the certifications required by this Section 12, but in no event later than March 15 of the year following the year in respect of which such allocation is made or if the Company's audited financial statements have not been issued as of such date, than no later than December 31 of the year in which such allocation is made.

(vi) Maximum Award Payable. Notwithstanding any provision contained in the Plan to the contrary, the maximum Performance Award payable to any one Participant under the Plan in any calendar year shall be $5,000,000.

13. *Section 409A*

Notwithstanding any other provision hereunder, the Plan and all payments hereunder are intended to comply with the requirements of Section 409A of the Code, including transition relief and exemptive provisions thereunder, and shall be construed and administered accordingly. Notwithstanding anything to the contrary in the Plan, neither the Company, nor any Affiliate, nor the Committee, nor any person acting on behalf of the Company, any Affiliate, or the Committee, shall be liable to any Participant or to the estate or beneficiary of any Participant or to any other holder of an award granted under the Plan by reason of any acceleration of income, or any additional tax, asserted by reason of the failure of such an award to satisfy the requirements of Section 409A of the Code.

14. *Choice of Law.*

The law of the State of Delaware shall govern all questions concerning the construction, validity and interpretation of the Plan, without regard to such state's conflict of law rules.

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Annual Meeting

The 2016 Annual Meeting of Shareholders will be held at 8:00 a.m. on May 11, 2016. The meeting will be held at our offices located at:

3438 Peachtree Road NE
Atlanta, Georgia 30326

Common Stock

Symbol: CRI
Exchange: New York Stock Exchange

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
(800) 937-5449
www.amstock.com

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
1075 Peachtree Street, Suite 2600
Atlanta, Georgia 30309

Legal Counsel

Paul Hastings LLP
1170 Peachtree Street, N.E.
Suite 100
Atlanta, Georgia 30309

Investor Relations

For further information on Carter's, Inc., or for additional copies of this Annual Report, Proxy Statement, Form 10-K, or other financial information, please visit the investor relations section of the Company's website at www.carters.com. You may also contact Carter's Investor Relations at investor@carters.com or (678) 791-7615.

Carter's, *Count on Carter's, Little Baby Basics, Little Layette, Little Collections, Just One You*, *Precious Firsts*, *Child of Mine*, *OshKosh B'gosh*, *OshKosh*, and *Genuine Kids* are trademarks owned by subsidiaries of Carter's, Inc.

All market share data provided in this Annual Report is based on information provided by NPD Group, Inc. as of February 25, 2016. References to specific market share are expressed as a percentage of total retail sales of a particular market.

Leadership Team

Michael D. Casey
Chairman of the Board of Directors
& Chief Executive Officer

Brian J. Lynch
President

Kevin D. Corning
Executive Vice President, International

Julie A. D'Emilio
Senior Vice President of Sales

William G. Foglesong
Senior Vice President of Marketing

Peter R. Smith
Executive Vice President
of Supply Chain

Richard F. Westenberger
Executive Vice President
& Chief Financial Officer

Jeffrey B. Williams
Senior Vice President of Retail

Jill A. Wilson
Senior Vice President of
Human Resources
& Talent Development

Michael C. Wu
Senior Vice President,
General Counsel & Secretary

Board of Directors

Amy Woods Brinkley [1,2]
Former Chief Risk Officer &
Former President
Consumer Products Division,
Bank of America Corporation

Michael D. Casey
Chairman of the Board of Directors
& Chief Executive Officer

Vanessa J. Castagna [3]
Former Executive Chairwoman,
Mervyn's, LLC
Former Chairwoman &
Chief Executive Officer,
JCPenney Stores, Catalog & Internet for
J. C. Penney Company, Inc.

A. Bruce Cleverly [2,3 (Chair)]
Former President,
Global Oral Care Division,
The Procter & Gamble Company

Jevin S. Eagle [2]
Former Chief Executive Officer,
DavidsTea Inc.
Former Executive Vice President,
Merchandising and Marketing,
Staples, Inc.

Paul Fulton [2 (Chair),3]
Non-Executive Chairman,
Bassett Furniture Industries, Inc.
Former President,
Sara Lee Corporation

William J. Montgoris [1]
Former Chief Operating Officer &
Former Chief Financial Officer,
The Bear Stearns Companies, Inc.

David Pulver [1 (Chair)]
President,
Cornerstone Capital, Inc.
Former Chairman &
Co-Chief Executive Officer,
The Children's Place, Inc.

Thomas E. Whiddon* [1,3]
Former Executive Vice President-
Logistics & Technology and
Former Chief Financial Officer,
Lowe's Companies, Inc.

*Lead Independent Director

Board Committees:
1 Audit
2 Compensation
3 Nominating and Corporate Governance


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Atlanta, GA 30326 | 678.791.1000
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