



# carter's<sup>®</sup>

Carter's, Inc. 2020 Annual Report



# carter's, inc.

March 30, 2021

Dear Fellow Shareholders,

2020 began as a year of great optimism. In February 2020, we reported our 31st consecutive year of sales growth and a record level of cash flow for fiscal year 2019. With mid-single digit growth in sales through February 2020, the new year was off to a strong start and expected to be another good year of growth for us.

By mid-March, a global pandemic and national emergency had been declared, and the lives of people throughout the world were disrupted. In the months that followed, we worked to keep our employees and our store customers safe from the virus. We temporarily closed all of our stores for several weeks, reduced spending, negotiated lower product costs, and improved liquidity. We significantly reduced our exposure to excess inventories caused by temporary store closures, and by curtailing inventory commitments, we were able to improve price realization and gross profit margins last year.

When the pandemic hit, we accelerated the execution of new capabilities to support the same-day pickup of eCommerce orders in our stores, curbside pickup and the direct shipment of eCommerce orders from our stores. We developed new ways to partner remotely with our wholesale customers, leveraged our investments in digital product imagery, and secured higher bookings for our beautiful product offerings in 2021. We also engaged more deeply and effectively with consumers through social media, building a virtual community of families with young children.

During the pandemic, we added over two million new eCommerce customers in the United States. With the support of our wholesale customers, the online sales of our brands exceeded \$1 billion in 2020. Through exceptional working capital management, together with the support of our landlords, suppliers and lenders, we achieved a record level of operating cash flow of \$590 million and ended 2020 with a strong balance sheet, including \$1.8 billion of liquidity.

## **Our Vision and Focus**

Carter's is the largest branded marketer of young children's apparel in North America. Our brands are sold in over 20,000 store locations, on the largest eCommerce platforms and through international wholesale relationships in over 90 countries. We believe no other company in the world can match our market presence and success in branded childrenswear.

Our vision is to be the world's favorite brands in young children's apparel. To achieve this vision, we are focused on providing the best value and experience in young children's apparel, extending the reach of our brands, and improving profitability. Our growth plan is built on four key strategies:

- **Lead in eCommerce**

eCommerce is our fastest growing and highest margin business. Our Carter's brands have the largest share of the eCommerce children's apparel market in the United States. In 2020, our carters.com online experience was rated as one of the top user experiences among the largest U.S. and European eCommerce websites. We also have unparalleled relationships with the leading eCommerce retailers of young children's apparel, including Amazon, Target, Walmart, Kohl's and Macy's.

- **Win in Baby**

Carter's is the number one brand in baby apparel, with over four times the share of our nearest competitor in the United States. It has been the best-selling brand in young children's apparel for multiple generations of consumers.

It is possible that we may see fewer births near term due to the pandemic. We have seen births decline almost every year since the Great Recession began in 2007. And since 2007, our sales and earnings have more than doubled. With the promise of vaccines more broadly available this year, unprecedented government stimulus helping families with young children, historically low interest rates, a strong housing market and an improving economy, we view the risk of fewer births as a potential short-term challenge, but not a longer-term obstacle to our growth.

- **Age Up**

We have the largest share of the baby and toddler apparel markets in the United States and Canada. The largest growth in our sales before the pandemic, both in percentage and absolute dollars, was driven by our product offerings focused on five to ten-year-old children. With the continued success of our Age Up initiative and the likely reopening of schools this year, we expect that our Age Up strategy will be a good source of growth for us in the years ahead.

- **Expand Globally**

We plan to extend the reach of our brands globally and profitably. International sales contributed about 12% of our consolidated sales in 2020 and are expected to grow to 15% of our sales by 2025. Over the next five years, over 60% of our international sales growth is forecasted to be driven by our multichannel operations in Canada and Mexico.

Our brands are also sold globally through Amazon, Walmart, and Costco. We expect good growth from these multinational retailers and other retailers who are extending the reach of our brands to families with young children through over 1,000 retail locations in over 90 countries outside of North America.

## **Growth Objectives**

We believe our global, multi-channel business model will enable mid-single digit annual growth in sales, on average, over the next five years. If we achieve this objective, our net sales would increase by nearly \$700 million to approximately \$3.7 billion by 2025, with all business segments contributing to our growth.

We plan to grow annual earnings per share by more than 10%, on average, through 2025. We are executing a productivity improvement plan that is focused on fewer, better and higher margin stores, improved price realization, stronger product costing capabilities and greater organizational efficiencies.

Our projections reflect approximately \$1.7 billion in cumulative cash flow from operations over the next five years. We plan to evaluate new opportunities that may provide inorganic sources of growth and attractive returns on investment. Absent better alternatives to allocate capital, we plan to reduce our debt levels and resume returning excess capital to shareholders through share repurchases and dividends.

## **Fundamental Strengths**

Over the years, a long-term shareholder would often say that Carter's success has been driven by the strength of our iconic brands and our balance sheet. While we believe that is true, we also believe that the fundamental strengths of our business include our talented employees who demonstrated extraordinary resilience last year, supporting their families and our Company through the pandemic.

In many cases, we have multiple generations of families who have worked for Carter's in good years and tougher years. 2020 was one of those tougher years. And though many things changed in our lives last year, one thing remains the same—beautiful babies are born every day, and the apparel brand consumers choose for their new baby, more so than any other brand, is Carter's.

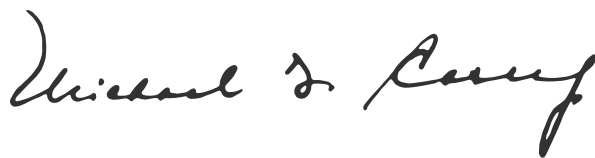
With the support of our employees, customers and business partners, we believe Carter's will emerge stronger from the pandemic, is well positioned to grow and gain market share, and our best years are ahead of us.

## **Virtual Meeting**

To ensure the safety of our shareholders and employees, our Annual Meeting will be conducted virtually this year. We believe that our virtual Annual Meeting will enable increased shareholder participation, and lower the cost to our shareholders, the Company, and the environment. The attached Notice of the 2021 Annual Meeting of Shareholders and Proxy Statement describes the formal business to be conducted at the meeting.

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

Sincerely,

A handwritten signature in black ink that reads "Michael D. Casey". The signature is written in a cursive, flowing style.

Michael D. Casey  
Chairman and Chief Executive Officer



# carter's, inc.

## 2021 NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the 2021 Annual Meeting of Shareholders of Carter's, Inc. (the "Annual Meeting") will be held at 10:00 a.m. Eastern Time on May 19, 2021.

The Annual Meeting will be a completely "virtual meeting" of stockholders. This reflects our continued concerns about the COVID-19 pandemic. We believe that the virtual Annual Meeting will enable increased shareholder participation from locations around the world, and lower the cost to our shareholders, the Company, and the environment.

The business matters for the Annual Meeting are as follows:

- 1) The election of the nine nominated directors;
- 2) An advisory approval of compensation for our named executive officers (the "say-on-pay" vote);
- 3) The ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2021; and
- 4) Any other business that may properly come before the meeting.

To attend and participate in the Annual Meeting as a shareholder go to [www.virtualshareholdermeeting.com/CRI2021](http://www.virtualshareholdermeeting.com/CRI2021) and, when prompted, enter the 16-digit control number included in your proxy materials. Once you are admitted to the meeting as a shareholder, you may vote during the Annual Meeting and also submit questions related to the proposals by following the instructions available on the virtual meeting website during the meeting. We encourage you to log into this website and access the virtual meeting before the start of the meeting.

Shareholders of record at the close of business on March 22, 2021 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 submit your voting instructions over the internet, by telephone, 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.

**Important notice regarding the availability of proxy materials for the  
2021 Annual Meeting of Shareholders of Carter's, Inc. to be held on May 19, 2021:  
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 listed above.**

By order of the Board of Directors,



Scott F. Duggan  
*Senior Vice President of Legal and Corporate Affairs, General Counsel & Secretary*

Atlanta, Georgia  
March 30, 2021

## PROXY STATEMENT

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## 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 2021 Annual Meeting of Shareholders on May 19, 2021 10:00 a.m. Eastern Time (the “Annual Meeting”). This proxy statement and accompanying proxy card are being mailed on or about April 6, 2021 to shareholders of record as of March 22, 2021, 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 the nine nominated directors (see page 16);
2. An advisory approval of the compensation for our named executive officers (“NEOs”) (the “say-on-pay” vote) (see page 44);
3. The ratification of the appointment of PricewaterhouseCoopers LLP (“PwC”) as the Company’s independent registered public accounting firm for fiscal 2021 (see page 46); and
4. All other business that may properly come before the meeting.

### ***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 and present them at the Annual Meeting. As of the Record Date, there were 43,950,307 shares of common stock issued and outstanding.

To attend and participate in the Annual Meeting as a shareholder go to [www.virtualshareholdermeeting.com/CRI2021](http://www.virtualshareholdermeeting.com/CRI2021) and, when prompted, enter the 16-digit control number included in your proxy materials. Once you are admitted to the meeting as a shareholder, you may vote during the Annual Meeting and also submit questions related to the proposals by following the instructions available on the virtual meeting website during the meeting. We encourage you to log into this website and access the virtual meeting before the start of the meeting.

### ***How will the virtual meeting work?***

We have designed the format of the Annual Meeting to ensure that our shareholders are afforded the same rights and opportunities to participate as they would at an in-person meeting.

During the Annual Meeting, we will hold a question and answer session during which we intend to answer questions submitted during the meeting that are pertinent to the Company, as time permits, and in accordance with our Rules and Procedures for Conduct of the Annual Meeting. On the day of and during the Annual Meeting, you can view our Rules and Procedures for Conduct of the Annual Meeting and submit any questions on [www.virtualshareholdermeeting.com/CRI2021](http://www.virtualshareholdermeeting.com/CRI2021). Answers to any questions not addressed during the meeting

will be posted following the meeting on the investor relations page of our website. Questions and answers will be grouped by topic, and substantially similar questions will be answered only once. To promote fairness, efficiently use the Company's resources, and ensure all shareholder questions are able to be addressed, we will respond to no more than three questions from any single shareholder.

Prior to and during the Annual Meeting, we will have support available to assist shareholders with any technical difficulties they may have accessing or hearing the virtual meeting. Technical support will be available if you encounter any difficulty accessing, or during, the virtual meeting.

***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 (virtually) 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 (virtually) 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 nominee on how to vote your shares.

***What is a broker non-vote?***

If you are a beneficial owner whose shares are held "in street name" and you do not provide voting instructions to your broker, your shares will not be voted on any proposal as to 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 Three. Therefore, your broker will not have discretion to vote on any other proposal unless you specifically instruct your broker how to vote your shares by returning your completed and signed voting instruction card.

***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 are my choices when casting a vote with respect to the election of the nine nominated directors, and what vote is needed to elect the director nominees?***

In voting on the election of the director nominees (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 aggregate of the number of votes cast “against” that nominee and shares as to which the holder “abstains” with respect to that nominee. Any nominee not receiving such majority must tender 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 be considered shares entitled to vote on the election of directors and thus will not affect the outcome of 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 the compensation of the Company’s NEOs (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 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 evaluating 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 the ratification of the appointment of PwC as the Company’s independent registered public accounting firm for fiscal 2021, and what vote is needed to approve this proposal?***

In voting on the ratification of PwC (Proposal Number Three), 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 Three requires the affirmative vote of a majority of the votes properly cast at our Annual Meeting. Abstentions are not considered votes cast and thus 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 nine nominated directors (Proposal Number One);

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

**FOR** the ratification of the appointment of PwC (Proposal Number Three).

***How do I vote?***

If you are a shareholder of record on the Record Date, you may vote in one of four ways.

- First, you may vote over the internet by completing the voting instruction form found at [www.proxyvote.com](http://www.proxyvote.com). You will need your proxy card when voting over the internet.
- 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 (virtually) 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 (virtually).

***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 Mr. Duggan at the Company's address set forth in the 2021 Notice of Annual Meeting, or by submitting another proxy card bearing a later date. Alternatively, if you have voted over the internet or by telephone, you may change your vote by calling 1-800-690-6903 and following the instructions. Attendance at the Annual Meeting will not constitute a revocation of a previously provided proxy unless you affirmatively indicate at the Annual Meeting that you intend to vote your shares in person by completing and delivering a written ballot.

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. Duggan at the Company's address set forth in the 2021 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 2020 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. Duggan at the Company's address set forth in the 2021 Notice of 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?***

Shareholders may present proper proposals for inclusion in our proxy statement and for consideration at the 2022 annual meeting of shareholders by submitting their proposals in writing to Mr. Duggan at the Company's address set forth in the 2021 Notice of Annual Meeting in a timely manner.

If the proposal is to be included in next year's proxy statement pursuant to Rule 14a-8 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"), then the proposal must be submitted and received on or before December 8, 2021. If we hold our 2022 annual meeting of shareholders more than 30 days before or after May 19, 2022 (the one-year anniversary date of the 2021 Annual Meeting), we will disclose the new deadline by which shareholders' proposals must be received under Item 5 of Part II of our earliest possible Quarterly Report on Form 10-Q or, if impracticable, by any means reasonably determined to inform shareholders.

Our by-laws also establish an advance notice procedure for shareholders who wish to present a proposal before an annual meeting but do not intend for the proposal to be included in our proxy statement or wish to nominate a director for consideration at an annual meeting of shareholders. Such proposals or nominations must be submitted and received no earlier than January 19, 2021, and no later than February 18, 2022 for our annual meeting of shareholders to be held in 2022. If we hold our 2022 annual meeting of shareholders more than 30 days before or after May 19, 2022 (the one-year anniversary date of the 2021 Annual Meeting), the notice of a shareholder proposal that is not intended to be included in our proxy statement or a nomination must be received not later than the close of business on the earlier of the following two dates:

- the 10th day following the day on which notice of the meeting date is mailed, and
- the 10th day following the day on which public disclosure of the meeting date is made.

Please note that there are additional requirements under our by-laws and the proxy rules to nominate a director or 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 present the nomination or 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. Fiscal 2022 (which will end on December 31, 2022) and Fiscal 2021 (which will end on January 1, 2022) will each have 52 weeks. Fiscal 2020 (which ended on January 2, 2021) had 53 weeks, and fiscal 2019 (which ended on December 28, 2019) and fiscal 2018 (which ended on December 29, 2018) each had 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. Duggan at the Company's address set forth in the 2021 Notice of Annual Meeting or by calling us at (678) 791-1000.

## BOARD OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION

### *Board of Directors*

Each of our directors stands for election annually and thereafter holds office for a one-year term. We are asking our shareholders to re-elect the nine directors set forth below at the Annual Meeting.

Following the Annual Meeting, the Board size will be reduced to nine directors. Thomas E. Whiddon left the Board earlier this year, and Amy Woods Brinkley and Richard Noll are not seeking re-election in light of other obligations. The Company is grateful to each of them for all that they have made possible for our Company. Going forward, the Board plans to focus on candidates with diverse backgrounds, including diversity of gender and race. Please see “—Retirement Policy” below for additional information regarding planned Board transition and “—Consideration of Director Nominees” for more information on the Nominating and Corporate Governance Committee’s philosophy and commitment to including in each search candidates who reflect diverse backgrounds.

The Board believes that each director nominated for election 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, consumer products, brand marketing, technology, global sourcing, sustainability, 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 officer, chief financial officer, division president, and other senior executive positions. 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.

**Hali Borenstein** became a director in December 2019. Ms. Borenstein is the Chief Executive Officer of Reformation LLC, a women’s lifestyle brand focused on fashion and sustainability, a position she has held since June 2020. From December 2017 until June 2020, Ms. Borenstein was President of Reformation LLC, and from 2014 to 2017 Ms. Borenstein held various merchandising and design roles of increasing responsibility at Reformation LLC. Prior to joining Reformation LLC, Ms. Borenstein was a senior merchandiser at Gymboree Group, Inc., and began her career at Bain & Company.

*Director Qualifications:* Ms. Borenstein brings to the Board valuable perspective and insight in eCommerce and retail businesses, as well as expertise in apparel marketing and merchandising.

**Giuseppina Buonfantino** became a director in June 2016. Ms. Buonfantino is the Vice President of Consumer Packaged Goods (CPG) Industry Solutions, Google Cloud, a position she has held since January 2021. From February 2020 until January 2021, Ms. Buonfantino served as Chief Digital and Marketing Officer at Amway Corporation. From May 2018 until November 2019, Ms. Buonfantino served as the Chief Marketing Officer for Kimberly-Clark Corporation, and from May 2011 until May 2018, Ms. Buonfantino held various other positions at Kimberly-Clark of increasing responsibility, most recently as President, North America, Baby and Child Care. Prior to that, from 1993 until 2011, Ms. Buonfantino held various positions at Johnson & Johnson, most recently as Vice President, Neutrogena Global Franchise.

*Director Qualifications:* Ms. Buonfantino brings to the Board valuable perspective and insight with respect to the retail industry, particularly in the baby and child retail space. Ms. Buonfantino also has a deep understanding of consumer products and marketing, both domestically and internationally.

**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 served on the board of directors of The Fresh Market, Inc. from 2015 until 2016.

*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, Inc. provided him with additional insight into corporate governance matters.

**A. Bruce Cleverly** became a director in March 2008. Mr. Cleverly retired as President of Global Oral Care from The Procter & Gamble Company/The Gillette Company in September 2007, a position he held since October 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. Mr. Cleverly is currently a director of Rain Bird Corporation, and was previously a director of 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 The Procter & Gamble Company and The Gillette Company. His thorough understanding and appreciation for the corporate governance of the Board is reflected by 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 United States 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, Inc., Mr. Eagle worked for McKinsey & Company, Inc. from 1994 to 2001, ultimately serving as a partner in the firm's retail practice. Mr. Eagle is currently the Executive Director of Boston University Hillel.

*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 Inc. and Executive Vice President, Merchandising and Marketing of Staples, Inc., including retail, management, merchandising, strategic planning, and brand marketing. His experience in the retail industry provides our Board with critical insights.

**Mark P. Hipp** became a director in February 2018. Since January 2013, Mr. Hipp has been the co-Chief Executive Officer of H2IDD, an advisory firm focused on public and private mergers and acquisitions. From November 2013 until April 2017, Mr. Hipp was the operating partner at Sterling Partners, a private equity firm. Prior to that, he spent over 13 years at Hewlett Packard Enterprise Company, most recently as Vice President & General Manager, HP Global Networking Business Management. Mr. Hipp currently serves on the board of directors of Eye Care Partners, Digital Rooms LLC, Purchasing Power LLC, and sticky.io.

*Director Qualifications:* Mr. Hipp brings to the Board valuable perspective and insight with respect to issues relating to information technology, including cybersecurity, and mergers and acquisitions.

**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 is a trustee of the Hackensack Meridian School of Medicine and a trustee emeritus of Colby College and St. John's University. Mr. Montgoris was previously a director of OfficeMax Incorporated, where he served from 2007 to 2013, and of Stage Stores, Inc., where he served from 2004 to 2020 and was chairman of the board from 2010.

*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. His financial expertise offers our Board a deep understanding of financial and audit-related matters. As the former chairman of the board of directors for Stage Stores, Inc., Mr. Montgoris also brings valuable insight with respect to the retail 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, Inc. His 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.

**Gretchen W. Schar** became a director in July 2019. From 2011 until June 2018, Ms. Schar served as Executive Vice President and Chief Financial and Administrative Officer of Arbonne International LLC, a beauty and nutritional products company, and from 2008 until 2011 served as Executive Vice President and Chief Financial Officer of philosophy, inc., an international prestige beauty brand. Prior to that, Ms. Schar spent over 30 years at The Procter & Gamble Company in finance and general management roles of increasing responsibility. Since 2002, Ms. Schar has served on the board of directors of Cincinnati Financial Corporation, and previously served as a director of Beam Inc. from 2012 until 2015.

*Director Qualifications:* Ms. Schar brings to the Board broad experience in a number of areas, including accounting, auditing and financial reporting, investor relations, capital management, human resources, information technology, and strategic and business planning.

### ***Board Leadership Structure***

The Company’s Corporate Governance Principles provide that the positions of Chairman of the Board 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 as Chairman of the Board. The Board believes it is appropriate to continue to combine the positions of Chairman and Chief Executive Officer. Mr. Casey has over 25 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”). This position was created 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:

- presiding at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
- calling additional meetings of the independent directors;
- facilitating discussion and open dialogue among the independent directors during Board meetings, executive sessions and outside of Board meetings;
- serving as principal liaison between the independent directors and the Chairman, without inhibiting direct communication between them;
- communicating to the Chairman and management, as appropriate, any decisions reached, and suggestions, views or concerns expressed, by independent directors in executive sessions or outside of Board meetings;



- providing the Chairman with feedback and counsel concerning the Chairman’s interactions with the Board;
- working with the Chairman to develop and approve Board meeting agendas and meeting schedules;
- working with the Chairman on the appropriateness (including quality and quantity) and timeliness of information provided to the Board;
- authorizing the retention of advisors and consultants who report directly to the Board when appropriate;
- in consultation with the Nominating and Governance Committee, reviewing and reporting on the results of the Board performance self-evaluations;
- at least annually, meeting individually with independent directors to discuss Board and committee performance, effectiveness and composition; and
- if appropriate, and in coordination with management, being available for consultation and direct communication with major shareholders.

Mr. Pulver was appointed to serve as Lead Director in November 2018.

### ***Director Independence***

The New York Stock Exchange (“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 (all directors other than Mr. Casey) are independent and meet the independence requirements under the listing standards of the NYSE, the rules and regulations of the SEC, and the Company’s Corporate Governance Principles.

### ***Board and Committee Evaluations***

The Board recognizes that a robust and constructive evaluation process is an essential component of good corporate governance and Board and committee effectiveness. Through this process, directors provide feedback and assess Board, committee and director performance, including areas where the Board believes it is functioning effectively and areas where the Board believes it can improve. The Board and the committees may, from time to time, engage outside third parties to help with this process.

In fiscal 2020, under the leadership of the Lead Director and the Chairperson of the Nominating and Corporate Governance Committee, the Nominating and Corporate Governance Committee oversaw the Board’s annual evaluation process, which focused on the Board and each of the committees, as well as individual peer-to-peer assessments including individual interviews with each director.

### ***Retirement Policy***

In February 2019, the Board adopted an amendment to the Company’s Corporate Governance Principles to include a retirement policy. Under this policy, each independent director’s retirement will be automatic at the annual meeting of shareholders following such director reaching the age of seventy five (75), and no person shall be eligible for nomination or election as an independent director after reaching the age of seventy five (75), subject to the following exceptions:

- (a) Mr. Pulver will retire at the annual meeting of shareholders following his eightieth (80th) birthday (in 2022) to the extent he is still serving as a director at such time. Each of Mr. Cleverly and Mr. Montgoris will retire at the annual meeting of shareholders following his seventy-eighth (78th) birthday (in 2023 and 2025, respectively) to the extent he is still serving as a director at such time.

- (b) The Board may waive this policy with respect to an individual upon the recommendation of the Nominating and Corporate Governance Committee. A waiver may be granted on a case-by-case basis for any reasonable purpose including, but not limited to, the particular skills and experiences the director brings to the Board, the director's past performance and ability to continue to constructively contribute going forward, and the then-current composition of the Board. The affected individual shall not participate in any vote regarding the waiver if he or she is an incumbent director.

The Board determined that these exceptions are appropriate in order to promote continuity of experience on the Board, both in the short term, by allowing Messrs. Pulver, Cleverly, and Montgoris to serve beyond their 75th birthdays if the Nominating and Corporate Governance Committee and the Board determine it is otherwise appropriate, and in the long term, by allowing the Nominating and Corporate Governance Committee to use reasonable discretion to allow a director to serve past his or her 75th birthday in the future.

### ***Board and Annual Meetings***

Our Corporate Governance Principles require at least four regularly scheduled Board meetings each year, and each director is expected to attend each meeting. The Board held four regularly scheduled quarterly meetings during fiscal 2020. The Board also held an additional 13 special meetings in fiscal 2020, primarily to oversee the Company's response to and progress during the COVID-19 pandemic.

In fiscal 2020, 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 2020.

### ***Executive Sessions***

Executive sessions of non-management directors are held at least four times a year. Any non-management director can request that additional executive sessions be scheduled. The 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](http://ir.carters.com) or in print by contacting Mr. Duggan at the Company's address set forth in the 2021 Notice of Annual Meeting. The Board may also establish other committees to assist in the discharge of its responsibilities.

The table below identifies the committee members and committee chairperson (as indicated by a "C") as of the Record Date.

<u>Director</u>	<u>Audit</u>	<u>Compensation</u>	<u>Nominating &amp; Corporate Governance</u>
Hali Borenstein . . . . .			✓
Amy Woods Brinkley . . . . .		C	
Giuseppina Buonfantino . . . . .		✓	
A. Bruce Cleverly . . . . .			C
Jevin S. Eagle . . . . .		✓	✓
Mark P. Hipp . . . . .	✓		
William J. Montgoris . . . . .	C		
Richard A. Noll . . . . .		✓	
David Pulver . . . . .			✓
Gretchen W. Schar . . . . .	✓		
Number of Fiscal 2020 Committee Meetings . . . . .	6	10	5

### ***Audit Committee***

During fiscal 2020, the members of the Audit Committee were Ms. Schar and Messrs. Hipp, Montgoris, and Whiddon (who resigned from the Board in January 2021). Mr. Montgoris serves as chairperson. During fiscal 2020, the Audit Committee held six meetings.

The Audit Committee is responsible for, among other things, oversight of:

- the quality and integrity of, and risks related to, the consolidated financial statements, including the accounting, auditing, reporting and disclosure practices of the Company;
- the Company's internal control over financial reporting;
- the Company's audit process;
- the Company's enterprise risk management program;
- the independent auditor, including sole responsibility for its selection and retention and oversight of its performance, qualifications and independence;
- the Company's compliance with legal and regulatory requirements, except to the extent delegated to other Board committees; and
- the performance of the Company's internal audit function.

The Audit Committee operates pursuant to a written charter that addresses the requirements of the NYSE listing standards. The Board has determined that each member of the Audit Committee during fiscal 2020 was, and as currently structured 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 Ms. Schar and Mr. Montgoris is an "audit committee financial expert" as defined under SEC rules.

The Audit Committee Report is included in this proxy statement on page 45.

### ***Compensation Committee***

During fiscal 2020, the members of the Compensation Committee were Mses. Brinkley and Buonfantino, and Messrs. Eagle and Noll. Ms. Brinkley serves as chairperson. During fiscal 2020, the Compensation Committee held ten meetings. In addition to the four regularly scheduled meetings, additional meetings were held to select the Committee's new compensation consultant and to oversee compensation decisions during the pandemic. Following the Annual Meeting, and assuming the election of the nine director nominees included in this Proxy Statement, the members of the Compensation Committee will be Mses. Buonfantino and Schar, and Mr. Eagle, with Mr. Eagle serving as chairperson.

The Compensation Committee is responsible for, among other things:

- establishing the Company's philosophy, policies, and strategies 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 succession plans are 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 (the “say-on-frequency” 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 33.

The CD&A, which begins on page 21, 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 during fiscal 2020 was, and as currently structured 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 2020 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*

During fiscal 2020, the members of the Nominating and Corporate Governance Committee were Ms. Borenstein, and Messrs. Cleverly, Eagle, and Pulver. Mr. Cleverly serves as chairperson. During fiscal 2020, 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 and reviewing existing members for re-election;
- 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 Nominating and Corporate Governance Committee during fiscal 2020 was, and as currently structured 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 Nominating and Corporate Governance Committee will consider prospective nominees that come to its attention through current Board members, search firms, or other sources.

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 Nominating and Corporate Governance 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. Duggan at the Company's address set forth in the 2021 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 and maintaining share ownership at the time of the applicable annual meeting, and the submission must include 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 Nominating and Corporate Governance Committee considers each candidate's skills and experience and assesses the needs of the Board and its committees at that point in time. Consistent with this philosophy, the Nominating and Corporate Governance Committee is committed to including in each search candidates who reflect diverse backgrounds, including diversity of gender and race, and seeks to have Board members with diverse backgrounds, experiences, and points of view. In connection with its assessment of all prospective nominees, the Nominating and Corporate Governance Committee will determine whether to interview such prospective nominees, and if warranted, one or more members of the Nominating and Corporate Governance Committee, and others as appropriate, will interview such prospective nominees in person or by telephone. Once this evaluation is completed, if warranted, the Nominating and Corporate Governance Committee selects the nominees and recommends to the Board that they be nominated 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 other individual non-management directors. The submission must be delivered to Mr. Duggan at the Company's address set forth in the 2021 Notice of Annual Meeting.

The Board, the Lead Director, or other 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 other 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 at 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 Audit Committee is responsible for overseeing the processes, procedures, and capabilities of the Company's enterprise risk management program, risks related to its financial statements, financial reporting, internal controls, and IT security, 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 also 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, and has confirmed that no such risks exist.

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 lobbying and other political activities, and environmental, social, and governance ("ESG") efforts, including its 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.

#### *Information Security Oversight*

The Audit Committee provides oversight of the Company's information security initiatives. Management reports to the Audit Committee on information security matters, generally on a quarterly basis.

Our information security initiatives are led internally by our Senior Vice President, Chief Information Officer, and includes a comprehensive information security training and compliance program. An external firm assists the Company in the independent evaluation of its information security maturity.

#### *ESG Oversight*

We believe a strong team and governance are essential to demonstrating accountability and driving our desired results when it comes to important ESG matters, including climate change, product quality and safety, workers' rights, product design and innovation, supply chain management, and employee engagement.

The Nominating and Corporate Governance Committee provides oversight of the Company's ESG initiatives. Management reports to the Nominating and Corporate Governance Committee on ESG matters on a quarterly basis.

Our ESG initiatives are led internally by our Senior Vice President, Corporate Social Responsibility, who reports directly to our Chairman and Chief Executive Officer.

Our ESG initiatives are managed in part by a team of subject matter experts who are part of our broader Supply Chain team that is led by our Executive Vice President of Supply Chain. The team is further supported by the Company's ESG Council, which includes employees from across the Company's business.

More information about our ESG efforts can be found at <https://www.carters.com/esg> (the contents of which are not incorporated by reference into this proxy statement).

#### *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](http://ir.carters.com) or in print by contacting Mr. Duggan at the Company's address set forth in the 2021 Notice of Annual Meeting.

**PROPOSAL NUMBER ONE  
ELECTION OF DIRECTORS**

The Board proposes that the following nine director nominees be elected to the Board to serve until the next annual meeting in 2022, or until his or her earlier resignation, death, or removal. Each nominee is listed below, along with their age as of the date of the Annual Meeting. For more information about each of the director nominees, including individual biographies and a discussion of the Board appointments made in fiscal 2020, please see “Board of Directors and Corporate Governance Information—Board of Directors.”

<u>Name</u>	<u>Age</u>
Hali Borenstein .....	36
Giuseppina Buonfantino .....	53
Michael D. Casey .....	60
A. Bruce Cleverly .....	76
Jevin S. Eagle .....	54
Mark P. Hipp .....	59
William J. Montgoris .....	74
David Pulver .....	79
Gretchen W. Schar .....	66

**The Board recommends a vote FOR the election of each of the director nominees listed above.**

**Vote Required**

Pursuant to our by-laws and our Corporate Governance Principles, the number of votes properly cast “for” a director nominee must exceed the aggregate number of votes cast “against” that nominee and shares to which the holder “abstains” 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. Broker non-votes are not considered shares entitled to vote in the election of directors.

Any nominee who does not receive a majority of votes cast “for” his or her election is required to tender their 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 or her resignation. If the resignation is not accepted, the director will continue to serve until the next annual meeting of shareholders and until such director’s successor is elected and qualified.



## COMPENSATION OF DIRECTORS

When they are initially appointed to the Board, each of our non-management directors receives a one-time restricted stock grant, equal to the value of the annual retainer, that cliff-vests after three years. Thereafter, each of our non-management directors receives an annual cash retainer and an annual stock award, and each of our committee chairpersons and our Lead Director receives an additional annual retainer. Non-management directors also receive fees for each meeting they attend.

In light of the COVID-19 pandemic and the challenges faced by the Company (as described further below under “Compensation Discussion and Analysis—Response to the COVID-19 Pandemic and Executive Compensation Highlights for Fiscal 2020”), in fiscal 2020 the Board, at the recommendation of the Compensation Committee, temporarily reduced all cash compensation for non-management directors by 50% during the period beginning with the regularly scheduled Board meeting in May 2020 through the end of August 2020.

As a result, for fiscal 2020, each director’s annual retainer was comprised of a \$70,000 cash payment (instead of the scheduled \$80,000 payment) and an immediately vested grant of our common stock valued at approximately \$145,000. In addition, our Lead Director received a \$30,625 cash retainer (instead of the scheduled \$35,000 retainer), the chairperson of our Audit Committee received a \$21,875 cash retainer (instead of the scheduled \$25,000 retainer), and the chairpersons of our Compensation and Nominating and Corporate Governance Committees each received \$17,500 cash retainers (instead of the scheduled \$20,000 retainer). Each director received meeting fees of \$2,500 (or \$1,250) for each regularly scheduled Board meeting, and \$1,000 (or \$500) for each special meeting of the Board and regularly scheduled or special meeting of the standing Board committees.

We reimburse directors for travel expenses incurred in connection with attending Board and committee meetings and for other expenses incurred while conducting Company business. During fiscal 2020, all meetings other than the regularly scheduled meetings in February were held telephonically or virtually.

Mr. Casey receives no additional compensation for serving on the Board.

The following table provides information concerning the compensation of our non-management directors serving during fiscal 2020.

**FISCAL 2020 DIRECTOR COMPENSATION TABLE**

Name	Fees Earned or Paid in Cash (\$) (a)	Stock Awards (\$) (b)	Total (\$)
Hali Borenstein . . . . .	\$ 91,000	\$145,009	\$236,009
Amy Woods Brinkley . . . . .	\$112,000	\$145,009	\$257,009
Giuseppina Buonfantino . . . . .	\$ 94,500	\$145,009	\$239,509
A. Bruce Cleverly . . . . .	\$108,500	\$145,009	\$253,509
Jevin S. Eagle . . . . .	\$ 99,000	\$145,009	\$244,009
Mark P. Hipp . . . . .	\$ 91,500	\$145,009	\$236,509
William J. Montgoris . . . . .	\$113,375	\$145,009	\$258,384
Richard A. Noll . . . . .	\$ 94,000	\$145,009	\$239,009
David Pulver . . . . .	\$121,625	\$145,009	\$266,634
Gretchen W. Schar . . . . .	\$ 91,500	\$145,009	\$236,509
Thomas E. Whiddon (c) . . . . .	\$ 91,500	\$145,009	\$236,509

(a) This column reports the amount of cash compensation earned in fiscal 2020 through annual cash retainers and meeting fees.



- (b) On May 14, 2020, we issued 1,942 shares of common stock to each non-management director who was a member of the Board on that date with a grant date fair value of \$74.67 per share.
- (c) Mr. Whiddon resigned from the Board in January 2021.

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 42.

In November 2020, the Board approved a deferred compensation program for non-management directors, under which beginning in 2021 directors may opt to defer cash retainer payments and stock grants in the form of deferred stock units until the fifth anniversary of the grant date or until the director leaves the Board.

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 \$400,000, by the end of his or her sixth year of service on the Board. Each of our directors complied with these ownership guidelines in fiscal 2020.

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.

## 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 . . . . .	60	Chairman of the Board of Directors & Chief Executive Officer
Brian J. Lynch . . . . .	58	President
Julie A. D'Emilio . . . . .	54	Executive Vice President, Sales
Scott F. Duggan . . . . .	55	Senior Vice President of Legal and Corporate Affairs, General Counsel & Secretary
Jeffrey M. Jenkins . . . . .	43	Executive Vice President, Global Marketing
Kendra D. Krugman . . . . .	43	Executive Vice President, Merchandising & Design
Patrick Q. Moore . . . . .	51	Executive Vice President, North America Retail
Benjamin L. Pivar . . . . .	54	Senior Vice President & Chief Information Officer
Antonio D. Robinson . . . . .	49	Senior Vice President, Corporate Social Responsibility
Peter R. Smith . . . . .	60	Executive Vice President, Supply Chain
Richard F. Westenberger . . . . .	52	Executive Vice President & Chief Financial Officer
Jill A. Wilson . . . . .	54	Senior Vice President, Human Resources & Talent Development

**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.

**Brian J. Lynch** joined the Company in 2005 as Vice President of Merchandising. Mr. Lynch was named Senior Vice President in 2008. In 2009, Mr. Lynch was named Executive Vice President and Brand Leader for Carter's. In 2012, Mr. Lynch was named President. Prior to joining the Company, Mr. Lynch was with The Walt Disney Company from 1995 to 2005 in various merchandising, brand management, and strategy roles in the Disney Parks & Resorts division. Prior to Disney, Mr. Lynch worked for Champion, a division of Hanesbrands Inc., where he held finance, sales management, and marketing positions.

**Julie A. D'Emilio** joined the Company in 2006 as Vice President of Sales. Ms. D'Emilio was named Senior Vice President of Sales in 2013, and then Executive Vice President, Sales in 2016. 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.

**Scott F. Duggan** joined the Company in 2019 as Senior Vice President of Legal and Corporate Affairs, General Counsel & Secretary. Prior to joining the Company, Mr. Duggan was Senior Vice President – General Counsel, Corporate Secretary, and Compliance Officer at The Fresh Market, Inc. from 2010 until 2019, and from October 2017 to 2019 he also served as Head of Real Estate. Prior to joining The Fresh Market, Inc., Mr. Duggan was a partner at Boston-based law firm Goodwin Procter LLP.

**Jeffrey M. Jenkins** joined the Company in 2019 as Executive Vice President, Global Marketing. From July 2017 to July 2019, Mr. Jenkins was with CKE Restaurants Holdings, Inc., the parent company of the Carl's Jr. and Hardee's fast food restaurant brands, serving most recently as Global Chief Digital Officer and previously as Chief Marketing Officer. From June 2015 to July 2017, Mr. Jenkins was with Whole Foods Market, Inc. as Vice President, Digital Marketing & Channel Activation and Vice President, Digital Strategy & Marketing. From 2008 to June 2015, Mr. Jenkins was with Yum! Brands, Inc. in marketing roles of increasing responsibility.

**Kendra D. Krugman** joined the Company in 2007 as Manager, Merchandising. Ms. Krugman was named Director, Merchandising in 2008, Vice President Sales and Merchandising, Mass Channel in 2012, Senior Vice President Carter's Brands and Licensing in 2016, and Executive Vice President, Merchandising & Design in July 2018. Prior to joining the Company, Ms. Krugman held positions at The Gap, Inc. and French Connection Group PLC.

**Patrick Q. Moore** joined the Company in 2017 as Executive Vice President, Strategy & Business Development. Mr. Moore was named Executive Vice President, Strategy & Global Business Development in February 2019 and Executive Vice President, North America Retail in December 2019. From 2013 to 2017, Mr. Moore was Executive Vice President, Chief Strategy Officer with YP Holdings, a portfolio company of Cerberus Capital Management and one of the largest digital media businesses in the United States. While at YP, Mr. Moore was responsible for a number of functions including strategy, corporate development, labor, compliance, real estate, and business development. From 2001 to 2013, Mr. Moore was with McKinsey & Company, Inc., where he served as a partner from 2006 to 2013, and managed clients across a variety of industries, including consumer products, retail, media, hospitality, and technology.

**Benjamin L. Pivar** joined the Company in 2015 as Vice President Information Technology (IT) Supply Chain. Mr. Pivar was named Vice President Retail IT in 2017, Vice President & Chief Information Officer in 2018, and Senior Vice President & Chief Information Officer in 2019. Prior to joining the Company, Mr. Pivar spent 12 years at Capgemini, most recently as Senior Vice President, North America Retail Lead.

**Antonio D. Robinson** joined the Company in 2010 as Vice President, Associate General Counsel. Mr. Robinson was named Vice President, Deputy General Counsel & Chief Compliance Officer in 2019, and Senior Vice President, Corporate Social Responsibility in 2020. Prior to joining the Company, Mr. Robinson was a shareholder at the Atlanta office of Littler Mendelson P.C.

**Peter R. Smith** joined the Company in 2015 as Executive Vice President, 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, V.F. 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 & 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 & 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.

**Jill A. Wilson** joined the Company in 2009 as Vice President of Human Resources. In 2010, Ms. Wilson was promoted to Senior Vice President, Human Resources & Talent Development. Ms. Wilson joined the Company after more than 20 years with The May Company and Macy's, Inc. 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 including global talent management, organizational development, learning and development, compensation, benefits, talent acquisition, and mergers.

## 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 the compensation of our executive officers, including our NEOs, and our executive compensation decisions for fiscal 2020.

Our NEOs for fiscal 2020 were:

- Michael D. Casey, Chairman & Chief Executive Officer;
- Richard F. Westenberger, Executive Vice President & Chief Financial Officer;
- Brian J. Lynch, President;
- Patrick Q. Moore, Executive Vice President, North America Retail; and
- Peter R. Smith, Executive Vice President, Supply Chain.

Each of our NEOs was employed by the Company in their respective roles for all of fiscal 2020.

### *Response to the COVID-19 Pandemic and Executive Compensation Highlights for Fiscal 2020*

During fiscal 2020, the global pandemic caused by the spread of the novel strain of coronavirus ("COVID-19") negatively affected the global economy, disrupted global supply chains, and created significant disruption in a wide range of markets, including a disruption in consumer demand for baby and children's clothing and accessories.

In fiscal 2020, the COVID-19 pandemic had a significant adverse effect on our business, financial condition, and results of operations. For instance:

- We saw lower sales both in our domestic and international retail and wholesale channels, and some of our wholesale customers unilaterally extended their payment terms with us.
- During March and April 2020, for the safety of customers and employees and due to local regulations, we suspended retail store operations in North America, which had a material effect on the results of operations in our U.S. Retail and International segments. Stores began reopening in the second quarter of fiscal 2020. During December 2020, we closed a number of our stores again in Canada and Mexico for the safety of our employees and customers, and to comply with local regulations.
- As consumer preferences shifted to our eCommerce channel, we announced our plan to close approximately 25% of our current stores, when leases come up for renewal or where there is a kick-out provision in the lease. Over 100 of these closures are planned to occur by the end of fiscal 2021.
- To improve near-term liquidity in light of the uncertainty and disruption related to COVID-19:
  - in March 2020, we drew \$639.0 million under our secured revolving credit facility;
  - on May 4, 2020, through our wholly owned subsidiary, The William Carter Company ("TWCC"), we successfully amended our revolving credit facility to provide for, among other things, a waiver

of financial covenants through the balance of fiscal year 2020, revised covenant requirements through the third quarter of fiscal year 2021, and the ability to raise additional unsecured financing; and

- on May 11, 2020, we completed the sale of \$500 million principal amount of senior notes at par issued by TWCC, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025.
- during the second and third quarters of fiscal 2020, we used the net proceeds from the notes, along with cash on hand, to repay all of our borrowings under our secured revolving credit facility.
- To create additional financial flexibility, we reduced costs, inventory commitments, and capital expenditures, during a portion of fiscal 2020. For example:
  - We furloughed all of our U.S. and Canada store associates and certain office-based employees during a portion of the time when our stores were closed. In addition, in the first and fourth quarters of fiscal 2020, the Company announced several organizational restructuring initiatives which included a reorganization of staffing models across multiple functions to drive labor savings and increase efficiencies, the consolidation of certain functions into our corporate headquarters in Atlanta, Georgia, and over 100 planned store closures by the end of fiscal 2021.
  - We implemented temporary delayed merit increases and implemented tiered salary reductions for our NEOs and other employees, implemented temporary fee reductions for our Board of Directors, and reduced other compensation-related expenses. During the third quarter of fiscal 2020, we reinstated merit increases and salaries (including for our NEOs), and Board of Directors' fees. More information about these salary reductions is provided below under “—2020 Total Direct Compensation—2020 Base Salary.”
  - During the second quarter of fiscal 2020, we suspended rent payments under the leases for our temporarily closed stores in North America. We resumed making the required rent payments under these leases in the third quarter of fiscal 2020.
  - With respect to return of capital initiatives, in the first half of fiscal 2020, we announced that we suspended our share repurchase program and our quarterly cash dividend.
  - We also executed substantial reductions in expenses, store occupancy costs, and overall costs, including reduced inventory purchases. During the third quarter of fiscal 2020, we resumed spending on certain strategic investments in information technology, eCommerce, marketing, and omni-channel retail store initiatives.
- Our manufacturing supply chain, which is primarily in Asia, was disrupted due to delays in textile mill and factory openings, delays in workers being able to return to work, and the spread of the pandemic from China to other parts of the world. In addition, ocean and air freight carriers' global operations have been disrupted due to the global shift in demand, leading to delays in shipments and increased costs from Asia to North America and elsewhere.

Please see our annual report on Form 10-K for fiscal 2020 for more information about the financial and other impacts that the pandemic had on the Company in fiscal 2020.

In February 2021, the Compensation Committee determined that, as a result of these significant impacts to the business, the Company did not achieve its minimum fiscal 2020 performance targets for compensation purposes. Specifically, the Compensation Committee had set targets based on the Company's fiscal 2020 performance in February 2018 (in the case of the shares of performance-based restricted stock that were issued in fiscal 2018) and February 2020 (in the case of the shares of performance-based restricted stock that were issued

in fiscal 2020 and the 2020 annual cash incentive compensation plan), in each case well before the potential effects of the pandemic on the business and the global economy were appreciated or known. The Compensation Committee determined that, based on the Company’s fiscal 2020 performance, the Company did not meet these targets, and the annual cash incentive compensation for fiscal 2020 under our Incentive Compensation Plan would be paid out at 0% of target, and the shares of performance-based restricted stock that were issued in 2018 and 2020 would vest at 0% of target.

However, the Compensation Committee noted that despite the challenges and disruptions discussed above the Company significantly exceeded the forecasts that were prepared by management in the early days of the pandemic, including those prepared in the context of the Company’s financing activities described above. Additionally, fiscal 2020 was a year of significant achievement across numerous areas of the business. For example, the Company was able to accelerate its omni-channel initiatives to continue to deliver product to customers during the pandemic, and to improve on its gross and operating margins throughout the second half of fiscal 2020, with strong inventory management, continued progress in improving price realization, a better promotional strategy, and its ability to decrease costs in response to decreased sales.

In recognition of the Company’s performance and achievements during the pandemic, and in light of the Compensation Committee’s overall compensation philosophy that, in part, seeks to attract and retain superior executive talent and to drive performance, the Compensation Committee determined to pay out a discretionary annual cash incentive compensation for fiscal 2020 equal to 25% of target with respect to our NEOs for fiscal 2020.

**Compensation Governance**

What We Do:	What We Do <u>Not</u> Do
<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> <b>Align Pay with Company Performance:</b> A significant portion of our NEOs’ total direct compensation is linked to Company performance in the form of incentive compensation and long-term equity compensation tied to performance criteria.</li> <li><input checked="" type="checkbox"/> <b>Retain an Independent Compensation Consultant:</b> 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.</li> <li><input checked="" type="checkbox"/> <b>Utilize Stock Ownership Guidelines:</b> We have minimum stock ownership guidelines for our executive officers to encourage them to maintain a meaningful equity interest in the Company in order to more closely align their interests with those of our shareholders in general.</li> <li><input checked="" type="checkbox"/> <b>Utilize Equity Retention Guidelines:</b> Our equity retention policy for executive officers requires holding periods for time-based restricted stock and time-based stock option grants.</li> <li><input checked="" type="checkbox"/> <b>Have Double-Trigger Cash Severance Arrangements in the Event of a Change of Control:</b> 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.</li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> <b>No Guaranteed Annual Salary Increases or Guaranteed Bonuses</b></li> <li><input checked="" type="checkbox"/> <b>No Re-Pricing of Stock Options Without Shareholder Approval</b></li> <li><input checked="" type="checkbox"/> <b>No Hedging, Pledging, or Short Sales of Company Stock</b></li> <li><input checked="" type="checkbox"/> <b>No Special Perquisites Provided to Our NEOs</b></li> <li><input checked="" type="checkbox"/> <b>No Equity Grants Below 100% Fair Market Value</b></li> </ul>

## ***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.

## ***Compensation Structure and Determination***

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."

## ***General***

In setting a total direct compensation target for each NEO, our Compensation Committee considers both the objective and subjective factors set forth below. 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 our peer group and, as needed, a broader retail survey, in order to understand where the compensation it sets falls relative to market practices. These levels are 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 our peer group and, as needed, a broader retail survey. The Compensation Committee chooses the actual amount of each element of compensation and the total compensation opportunity of each executive officer based, in part, on its review of data for the companies in our peer group and, as needed, a broader retail survey.

In setting compensation of all NEOs, our Compensation Committee considered 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 our peer group and, as needed, a broader retail survey;
- 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.

### *Base Salary*

When setting base salaries for our NEOs, our Compensation Committee considers the objective and subjective 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 our peer group and a broader retail survey, as appropriate.

### *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.

Our Compensation Committee has the discretion to reduce or not to award 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, and all of our NEOs are subject to the clawback policy described below.

### *Long-Term Equity Incentive Compensation*

Our Equity Incentive Plan allows for various types of equity awards, including stock options, restricted stock (both time and performance-based), 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 a combination of time-based stock options, time and performance-based restricted stock, and time-based restricted stock units, although it may choose to 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 our peer group and (as needed) a broader retail survey, 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 equity grants at regularly scheduled meetings, but may also make equity grants at special meetings or by unanimous written consent, and could select a date subsequent to a regularly scheduled meeting on which to grant equity awards. The exercise prices of equity awards are set 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 time-based and performance-based restricted stock awards using the closing price of our common stock on the date of grant.

### *Role of the Compensation Committee, Independent Consultant and Management*

Our Compensation Committee sets the total direct compensation of our NEOs, as well as the financial performance targets for our NEOs' annual cash incentive compensation and vesting terms for their equity awards, including performance-based awards.



For fiscal 2020, our Compensation Committee engaged Korn Ferry (through February 2020) and Meridian Compensation Partners, LLC (since March 2020), each an independent compensation consultant, to advise it on executive and director compensation matters.

The compensation consultant informs the committee on market trends, as well as regulatory issues and developments and how they may impact the Company's executive compensation program. The compensation consultant also, among other things:

- participates in the design of the executive compensation program to help the Compensation Committee evaluate, among other things, the linkage between pay and performance;
- reviews market data and advises the Compensation Committee regarding the compensation of the Company's executive officers; and
- reviews and advises the Compensation Committee regarding director compensation.

With the goal of maintaining the effectiveness of our executive compensation program, and not to alter our compensation philosophy, our Compensation Committee reviews the reasonableness of compensation for our executive officers, including our NEOs, and compares it with compensation data paid to executives in similar positions at the companies in our peer group and, as needed, a broader retail survey.

The compensation consultant serves at the discretion of the Compensation Committee and regularly attended executive sessions with the Compensation Committee. At the direction of the Compensation Committee, our Chief Executive Officer worked with the compensation consultant to review comparative compensation data and made 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 the compensation consultant.

The Compensation Committee has assessed the independence of both Korn Ferry and Meridian Compensation Partners, LLC pursuant to the NYSE's and the SEC's rules and has determined that they are each independent, and the work provided by each of them did not raise a conflict of interest.

*Peer Group Analysis and Retail Survey*

To assess the market competitiveness of our NEOs' compensation, the committee and management review data provided by the compensation consultant from two sources: data from our peer group and a broader retail survey.

Our Compensation Committee has established a peer group, which is generally comprised of companies in the retail or wholesale industries which 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. In setting fiscal 2020 compensation, our peer group was comprised of the following fifteen companies:

- |                                 |                          |
|---------------------------------|--------------------------|
| Abercrombie & Fitch Co.         | lululemon athletica inc. |
| American Eagle Outfitters, Inc. | Levi Strauss & Co.       |
| Chico's FAS, Inc.               | Tapestry, Inc.           |
| The Children's Place, Inc.      | Ulta Beauty, Inc.        |
| Columbia Sportswear Company     | Under Armour, Inc.       |
| Designer Brands Inc.            | Urban Outfitters, Inc.   |
| Guess?, Inc.                    | William-Sonoma, Inc.     |
| Hanesbrands Inc.                |                          |



In October 2020, our Compensation Committee conducted, with the assistance of the compensation consultant, its annual review of our peer group and determined, based on the criteria established for inclusion in the peer group, to remove Chico’s FAS, Inc., Designer Brands Inc., lululemon athletica inc., and Ulta Beauty, Inc., and add G-III Apparel Group, Ltd., Gildan Activewear Inc., Kontoor Brands, Inc., and Skechers U.S.A., Inc. to the peer group for fiscal 2021.

In addition, the Compensation Committee, at the advice of its compensation consultant, uses select information from a broader retail survey – that includes apparel and related products retailers or department stores who primarily sell apparel and related products – for executive compensation market assessment in order to supplement compensation data provided by the peer group analysis for roles outside of the Chief Executive Officer, Chief Financial Officer, and President that may not be adequately represented in the data that is available from our peer group.

***Say-on-Pay Results***

At the 2020 annual meeting of shareholders, approximately 98.7% 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 2019 compensation philosophy were necessary. At the 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.

***2020 Total Direct Compensation***

Throughout fiscal 2020, our Compensation Committee reviewed compensation data from our peer group and, as needed, a broader retail survey, and compared that data to the compensation of our NEOs. In addition, for fiscal 2020, the Compensation Committee took into account the Company’s performance in light of the COVID-19 pandemic, as discussed above under “—Response to the COVID-19 Pandemic and Executive Compensation Highlights for Fiscal 2020.”

***2020 Base Salary***

In February 2020, the Compensation Committee determined to increase the base salaries for fiscal 2020 for each of our NEOs, except for Mr. Casey, whose base salary remained the same relative to fiscal 2019, and Mr. Moore, whose base salary was increased to \$575,000 when he was named Executive Vice President, North America Retail in December 2019. These increases were based on each NEOs performance during fiscal 2019. The base salary for each NEO for fiscal 2020 is set out below.

	<u>Michael Casey</u>	<u>Richard Westenberger</u>	<u>Brian Lynch</u>	<u>Patrick Moore</u>	<u>Peter Smith</u>
Base salary (2019 annual) . . . . .	\$1,050,000	\$615,000	\$755,000	\$575,000	\$520,000
Base salary (2020 annual) . . . . .	\$1,050,000	\$635,000	\$780,000	\$575,000	\$535,000

Due to the COVID-19 pandemic (as discussed above under “—Response to the COVID-19 Pandemic and Executive Compensation Highlights for Fiscal 2020”), the increases for fiscal 2020 did not become effective until August 22, 2020, and the base salaries for each of the NEOs, as well as all other employees of Carter’s, were temporarily reduced from April 26, 2020 to August 22, 2020. Mr. Casey’s base salary was temporarily reduced by 50%, and the other NEO’s salaries were temporarily reduced by 10%. The total salary for each NEO in fiscal 2020 is shown in the Summary Compensation Table in the “Salary” column.

## 2020 Annual Cash Incentive Compensation and Bonus

In February 2020, our Compensation Committee set the following fiscal 2020 annual cash incentive compensation targets for our NEOs: 125% of base salary for Mr. Casey, 100% for Mr. Lynch, and 75% for Messrs. Moore, Smith, and Westenberger. In accordance with our Incentive Compensation Plan, for fiscal 2020, the Compensation Committee used two financial performance metrics to determine the amount, if any, of annual cash incentive compensation to be paid under our Incentive Compensation Plan: net sales (weighted at 50%) and operating income, as adjusted, if applicable, in the same manner as for presentation to the financial markets (weighted at 50%). (Please see additional information in our quarterly earnings releases for how adjusted operating income is determined for the purposes of determining our NEOs' compensation.) Our Compensation Committee selected net sales and operating income (as it may be adjusted) as performance metrics because it believes these metrics are key measures that are aligned with the interests of our shareholders and provide a means to measure the quality of our earnings. Our NEOs could have earned from 0% to 200% of their target annual cash incentive compensation in fiscal 2020 based upon the Company's achievement of net sales and adjusted operating income.

In February 2021, the Compensation Committee determined that, due to the effects of the pandemic (as discussed above under “—Response to the COVID-19 Pandemic and Executive Compensation Highlights for Fiscal 2020”) the Company did not achieve either of the minimum (Threshold) targets, which were set at \$3,476 million for net sales and \$401 million for adjusted operating income. As a result, our NEOs were awarded 0% of their cash incentive compensation targets for fiscal 2020.

However, in recognition of the Company's performance and achievements during the pandemic (as discussed above under “—Response to the COVID-19 Pandemic and Executive Compensation Highlights for Fiscal 2020”), and in light of the Compensation Committee's overall compensation philosophy that, in part, seeks to attract and retain superior executive talent and to drive performance, in February 2021 the Compensation Committee decided to pay out a discretionary annual cash incentive compensation for fiscal 2020 at 25% of target with respect to our NEOs for fiscal 2020. Payouts for the NEOs are shown in the Summary Compensation Table in the “Bonus” column.

## 2020 Long-Term Equity Incentive Compensation

In February 2020, our Compensation Committee approved annual time-based restricted stock and performance-based restricted stock grants for each NEO.

All of the time-based restricted stock awards granted to our NEOs in fiscal 2020 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 each grant date.

All of the performance-based restricted stock granted in February 2020 were eligible to vest in varying percentages (between 25% and 150%) if the Company achieves certain one-year growth targets for fiscal 2020 net sales and operating income (as adjusted for items judged to be non-recurring or unusual in nature), and subject to an additional two-year holding period.

The following table details the number of shares underlying the grants to each of our NEOs. A more detailed description of such grants can be seen below in the table “Fiscal 2020 Grants of Plan-Based Awards” and its footnotes.

	<u>Michael Casey</u>	<u>Richard Westenberger</u>	<u>Brian Lynch</u>	<u>Patrick Moore</u>	<u>Peter Smith</u>
Time-Based Restricted Stock . . . . .	27,188	4,988	5,892	2,608	2,608
Performance-Based Restricted Stock . . . . .	27,188	4,988	5,892	2,608	2,608

In addition, in February 2020, the Compensation Committee certified the performance criteria for the performance-based restricted stock that was granted in February 2017 and vested based on the Company’s fiscal 2019 adjusted EPS. Like in 2019, the Compensation Committee exercised negative discretion (as allowed pursuant to the Company’s equity plan) to further adjust fiscal 2019 adjusted EPS to exclude the effects of the 2017 federal tax reform as that effect was not contemplated by the Compensation Committee when setting the adjusted EPS targets. The threshold, target, and maximum metrics are set out below:

	<b>Fiscal 2019 Adj. EPS</b>
25% of Target 2017 Performance-Based Restricted Stock (Threshold) . . . . .	\$5.75
100% of Target 2017 Performance-Based Restricted Stock (Target) . . . . .	\$7.08
150% of Target 2017 Performance-Based Restricted Stock (Maximum) . . . . .	\$7.95
<b>Fiscal 2019 Adjusted Performance (as reduced through negative discretion) . . . . .</b>	<b>\$5.80</b>

Based on the Company’s fiscal 2019 performance, our NEOs were awarded approximately 28% of the performance-based restricted stock that was granted in February 2017.

***2021 Total Direct Compensation***

In February 2021, the Compensation Committee set the 2021 total direct compensation for the Company’s executive officers. In doing so, the Compensation Committee took into account all of the factors discussed above, as well as the on-going effects of the COVID-19 pandemic, including the resulting uncertainty to the business’s potential performance in fiscal 2021.

For the executive officers’ 2021 annual cash incentive compensation, the Compensation Committee used two financial performance metrics to determine the amount, if any, of annual cash incentive compensation to be paid under our Incentive Compensation Plan: net sales (weighted at 25%) and operating income, as adjusted, if applicable, in the same manner as for presentation to the financial markets (weighted at 75%). The Compensation Committee determined that this mix was appropriate to incentivize the Company’s management to grow profitable sales and operating income.

For the executive officers’ 2021 long-term equity incentive compensation, the Compensation Committee awarded grants under our Equity Incentive Plan. These grants were in the form of restricted stock that vests in equal parts over four years and, in the case of our executive officers other than Mr. Casey, restricted stock that cliff vests after three years. The Compensation Committee determined that this mix was consistent with the Company’s compensation philosophy and appropriate given the uncertainty in the Company’s business in fiscal 2021 as a result of the pandemic. The Compensation Committee expects to re-visit the discussion of performance-based equity for executive officers for the fiscal 2022 grants.

Also, in February 2021, the Compensation Committee certified the performance criteria for the performance-based restricted stock that was granted in February 2018 and February 2020 and vested based on the Company’s fiscal 2020 performance. As discussed above under “—Response to the COVID-19 Pandemic and Executive Compensation Highlights for Fiscal 2020,” the Compensation Committee determined that these grants vested at 0% of target based on the Company’s fiscal 2020 performance.

More information relating to the 2021 total direct compensation for the Company’s NEOs will be provided in next year’s proxy statement.

***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 shares of Company stock (other than to cover the tax obligations resulting from the vesting of Company

restricted stock or from exercising vested stock options) unless they own shares of Company stock with a total market value in excess of a specified multiple of his or her base salary and continues to maintain such level of ownership after such sale. For fiscal 2020, the ownership multiples for our NEOs were as follows:

	<b><u>Multiple of Base Salary</u></b>
Chief Executive Officer .....	7x
President .....	4x
Executive Vice Presidents .....	3x

During fiscal 2020 each of our NEOs was in compliance with his applicable ownership requirement.

Our equity retention policy for NEOs requires that, prior to any sale, any time-based restricted stock granted to an NEO 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 shares underlying time-based options granted be held for at least one year from the date of vesting.

#### ***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 2020, the Company announced that employee contributions made to the Company’s 401(k) plan in fiscal 2020 would be matched by the Company 100% up to 4% of the employee’s eligible compensation for all eligible 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.

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 over the vesting period in our consolidated statements of operations for stock options and restricted stock (both time and performance-based). However, under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), we may not deduct compensation of more than \$1 million paid to the Company’s “covered employees,” which includes (a) any individual who at any time during the taxable year is either our principal executive officer or principal financial officer, or an employee whose total compensation for the tax year is required to be reported to our shareholders because he or she is among the three highest compensated officers for the tax year (other than the principal executive officer or principal financial officer), and (b) any person who was a covered employee at any time after December 31, 2016. Prior to January 1, 2018, certain grants may have qualified as “performance-based compensation” and, as such, would be exempt from the \$1 million limitation on deductible compensation. Such performance-based compensation exception was eliminated by the Tax Cuts and Jobs Act with respect to tax years beginning January 1, 2018; however, under a transition rule, compensation payable pursuant to a written binding contract that was in effect on November 2, 2017 and which is not materially modified after such date may still qualify for the performance-based compensation exception. To the extent applicable to our existing contracts and awards, the Compensation Committee may avail itself of this transition rule. However, because of uncertainties as to the application and interpretation of the transition rule, no assurances can be given at this time that our existing contracts and awards, even if in place on November 2, 2017, will meet the requirements of the transition rule. 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 Code where those requirements would impair flexibility in compensating our executive officers in a manner that can best promote our corporate objectives and support our compensation philosophy. The Compensation Committee intends to continue to compensate our executive officers in a manner consistent with the best interests of the Company and our shareholders.

### ***Clawback and Hedging Policies***

The Board has adopted a policy for the recovery of cash and equity performance-based compensation from executives (these are generally referred to as “recoupment” or “clawback” policies). The policy provides that the Board may require an executive to reimburse or forfeit a performance-based award or repay performance-based compensation if the Company is required to prepare an accounting restatement as a result of misconduct, if such executive knowingly caused or failed to prevent such misconduct.

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 2020, none of our NEOs entered into hedging arrangement or pledged any shares of Company stock.

### ***Severance Agreements with NEOs***

Each of our NEOs has a severance agreement with the Company. In the event that an 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 an NEO is terminated without “cause,” or an 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. Moore, Smith, and Westenberger. 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 Company’s contribution to 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. Moore, Smith, and Westenberger.

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, and the Company’s contribution to the 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. Moore, Smith, and Westenberger. 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 will fully vest.

Severance payments made to the NEOs are subject to the requirements of Section 409A Code.

Under the agreements with each of our NEOs, “cause” is generally deemed to exist when such NEO has: (a) been convicted of a felony or entered a plea of guilty or no contest to a felony; (b) committed fraud or other act involving dishonesty for personal gain which is materially injurious to the Company; (c) 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; (d) willfully engaged in gross misconduct which is injurious to the Company; or (e) 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: (a) a material reduction in the executive’s title, duties, or responsibilities; (b) a material change in the geographic location at which the executive must perform services; or (c) 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, 2021, the last day of fiscal 2020. 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.”

	<u>Michael Casey</u>	<u>Richard Westenberger</u>	<u>Brian Lynch</u>	<u>Patrick Moore</u>	<u>Peter Smith</u>
Base Salary . . . . .	\$2,100,000	\$635,000	\$1,170,000	\$575,000	\$535,000
Cash Incentive Compensation (a) . . . . .	—	—	—	—	—
Health and Other Benefits . . . . .	22,924	11,466	10,386	11,466	11,466
<b>Total . . . . .</b>	<u>\$2,122,924</u>	<u>\$646,466</u>	<u>\$1,180,386</u>	<u>\$586,466</u>	<u>\$546,466</u>

(a) Cash incentive compensation calculations are based on cash incentive compensation targets achieved in fiscal 2020 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 term is defined under the Company’s Equity Incentive Plan and individual awards, all unvested stock options and all unvested shares of restricted stock will fully vest, and all unvested shares of performance stock will vest at their respective “target” amounts. 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 and performance stock, have fully vested immediately prior to a change of control on January 2, 2021, the last day of fiscal 2020, and that a termination without “cause” occurred immediately following a change of control on January 2, 2021. 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, 2020 (which was the last trading day before the end of fiscal 2020), as reported by the NYSE, which was \$94.07, 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, 2020 (which was the last trading day before the end of fiscal 2020), as reported by the NYSE, which was \$94.07.

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. These amounts do not include vested stock options, vested shares of restricted stock, or vested shares of performance stock. For a list of earned vested stock options, see the “Outstanding Equity Awards at Fiscal 2020 Year-End” table beginning on page 37.



	<u>Michael Casey</u>	<u>Richard Westenberger</u>	<u>Brian Lynch</u>	<u>Patrick Moore</u>	<u>Peter Smith</u>
Base Salary . . . . .	\$ 3,150,000	\$1,270,000	\$1,950,000	\$1,150,000	\$1,070,000
Cash Incentive Compensation (a) . . . . .	—	—	—	—	—
Health and Other Benefits . . . . .	34,385	22,932	17,309	22,932	22,932
Option Value . . . . .	176,468	17,903	35,600	31,141	17,903
Stock Value . . . . .	<u>13,284,377</u>	<u>2,190,702</u>	<u>2,743,552</u>	<u>1,780,557</u>	<u>1,338,522</u>
Total . . . . .	<u>\$16,645,230</u>	<u>\$3,501,536</u>	<u>\$4,746,461</u>	<u>\$2,984,630</u>	<u>\$2,449,356</u>

(a) Cash incentive compensation calculations are based on cash incentive compensation targets achieved in fiscal 2020 described in more detail under the heading “Annual Cash Incentive Compensation” above.

***Perquisites and Other Benefits***

Our NEOs do not receive any perquisites or other benefits on an annual basis that are not otherwise available to all employees. 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

Ms. Amy Woods Brinkley, Chairperson  
Ms. Giuseppina Buonfantino  
Mr. Jevin S. Eagle  
Mr. Richard A. Noll

## FISCAL 2020 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 2020, 2019, and 2018.

In the “Stock Awards” and “Option Awards” columns, we disclose the total fair value of the grants made in fiscal 2020, 2019, and 2018, 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 stock options, the fair value is calculated based on assumptions summarized in Note 10 to our audited consolidated financial statements, which are included in our fiscal 2020 Annual Report.

In the “Non-Equity Incentive Plan Compensation” column, we disclose the dollar value of all compensation earned in fiscal 2020, 2019, and 2018 pursuant to the Company’s Amended and Restated Incentive Compensation Plan, including all annual cash incentive compensation.

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 2020 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 (\$) (e)	All Other Compensation (\$) (f)	Total (\$)
Michael D. Casey Chairman of the Board of Directors and Chief Executive Officer	2020	\$ 868,269	\$328,200	\$6,000,392	\$ —	\$ —	\$100,257	\$7,297,118
	2019	\$1,050,000	\$ —	\$5,500,698	\$ —	\$790,000	\$287,214	\$7,627,912
	2018	\$1,040,769	\$ —	\$4,125,537	\$1,373,592	\$497,600	\$222,538	\$7,260,036
Richard F. Westenberger Executive Vice President & Chief Financial Officer	2020	\$ 600,635	\$119,100	\$1,100,852	\$ —	\$ —	\$ 27,259	\$1,847,845
	2019	\$ 615,000	\$ —	\$ 800,541	\$ —	\$278,000	\$ 55,375	\$1,748,916
	2018	\$ 608,846	\$ —	\$ 924,482	\$ 140,738	\$174,900	\$ 48,626	\$1,897,592
Brian J. Lynch President	2020	\$ 737,519	\$195,000	\$1,300,364	\$ —	\$ —	\$ 31,959	\$2,264,842
	2019	\$ 755,000	\$ —	\$1,100,566	\$ —	\$455,000	\$ 72,057	\$2,382,623
	2018	\$ 747,308	\$ —	\$ 825,396	\$ 274,451	\$286,300	\$ 65,831	\$2,199,285
Patrick Q. Moore Executive Vice President, North America Retail	2020	\$ 564,327	\$107,900	\$ 575,586	\$ —	\$ —	\$ 25,928	\$1,273,741
	2019	\$ 515,000	\$ —	\$1,150,428	\$ —	\$260,000	\$ 37,903	\$1,963,331
	2018	\$ 510,385	\$ —	\$ 424,242	\$ 140,738	\$146,500	\$ 22,811	\$1,244,675
Peter R. Smith Executive Vice President, Supply Chain	2020	\$ 508,152	\$100,400	\$ 575,586	\$ —	\$ —	\$ 23,793	\$1,207,931
	2019	\$ 520,000	\$ —	\$ 575,167	\$ —	\$235,000	\$ 45,833	\$1,375,999
	2018	\$ 515,385	\$ —	\$ 424,242	\$ 140,738	\$147,900	\$ 42,118	\$1,270,383

(a) Base salary for each NEO was based on a 371-day fiscal year for fiscal 2020, and a 364-day fiscal year for fiscal 2019 and 2018.

(b) Reflects the discretionary bonus that was awarded in fiscal 2021 based on fiscal 2020 performance in light of the challenges faced by the Company due to the on-going pandemic.

(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 beginning one year from the date of the grant.
- Vesting of the performance-based restricted stock awards granted in fiscal 2018, 2019, and 2020 is contingent upon meeting specific performance targets for fiscal 2020, 2021, and 2020, respectively, and vest in 2021, 2022, and 2023, respectively.

<u>Name</u>	<u>Grant Date</u>	<u>Time-Based Restricted Shares</u>	<u>Performance-Based Restricted Shares</u>	<u>Grant Date Fair Value per Share</u>
Michael D. Casey . . . . .	2/12/2020	27,188	27,188	\$110.35
	2/13/2019	30,948	30,948	\$ 88.87
	2/21/2018	11,436	32,744	\$120.25
Richard F. Westenberger . . . . .	2/12/2020	4,988	4,988	\$110.35
	2/13/2019	4,504	4,504	\$ 88.87
	2/21/2018	5,336	2,352	\$120.25
Brian J. Lynch . . . . .	2/12/2020	5,892	5,892	\$110.35
	2/13/2019	6,192	6,192	\$ 88.87
	2/21/2018	2,288	4,576	\$120.25
Patrick Q. Moore . . . . .	2/12/2020	2,608	2,608	\$110.35
	11/20/2019	5,744	—	\$100.15
	2/13/2019	3,236	3,236	\$ 88.87
	2/21/2018	1,176	2,352	\$120.25
Peter R. Smith . . . . .	2/12/2020	2,608	2,608	\$110.35
	2/13/2019	3,236	3,236	\$ 88.87
	2/21/2018	1,176	2,352	\$120.25

(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 beginning one year from 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 10 to the Company's consolidated financial statements included in Item 8 of our Annual Report.

<u>Name</u>	<u>Grant Date</u>	<u>Time-Based Stock Options Granted</u>	<u>Black-Scholes Fair Value</u>	<u>Option Exercise Price</u>
Michael D. Casey . . . . .	2/21/2018	49,268	\$27.88	\$120.25
Richard F. Westenberger	2/21/2018	5,048	\$27.88	\$120.25
Brian J. Lynch . . . . .	2/21/2018	9,844	\$27.88	\$120.25
Patrick Q. Moore	2/21/2018	5,048	\$27.88	\$120.25
Peter R. Smith . . . . .	2/21/2018	5,048	\$27.88	\$120.25

(e) The amounts shown as "All Other Compensation" for fiscal 2020 consist of the following:

<u>Name</u>	<u>401 (k) Company Match</u>	<u>Dividends Paid on Unvested Restricted Stock</u>	<u>Other (i)</u>	<u>Total</u>
Michael D. Casey . . . . .	\$11,400	\$84,731	\$4,126	\$100,257
Richard F. Westenberger . . . . .	\$11,400	\$13,973	\$1,886	\$ 27,259
Brian J. Lynch . . . . .	\$11,400	\$17,499	\$3,060	\$ 31,959
Patrick Q. Moore . . . . .	\$11,400	\$12,699	\$1,829	\$ 25,928
Peter R. Smith . . . . .	\$11,400	\$ 8,537	\$3,855	\$ 23,793

(i) These amounts include imputed income from health and life insurance contributions, imputed income from bring-your-own technology to work programs, and benefits from healthcare programs, each of which are available to all employees. The amounts for fiscal 2019 and fiscal 2018 have been updated in this proxy statement to include these amounts, and therefore may not be comparable to previous proxy statements.

## FISCAL 2020 GRANTS OF PLAN-BASED AWARDS

The following table provides information concerning each grant of plan-based awards made to an NEO in fiscal 2020. This includes incentive compensation awards granted under our Incentive Compensation Plan 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 2020. The last column reports the aggregate grant date fair value of all awards made in fiscal 2020 as if they were fully vested on the grant date.

Name	Award Type	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a)			Estimated Future Payouts Under Equity Incentive Plan Awards			Grant Date Fair Value of Stock and Option Name Awards
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	
Michael D. Casey	Cash Incentive Compensation	—	\$328,125	\$1,312,500	\$2,625,000	—	—	—	—
	Shares (b)	2/12/2020	—	—	—	—	27,188	27,188	\$3,000,196
	Shares (c)	2/12/2020	—	—	—	6,797	27,188	40,782	\$3,000,196
Richard F. Westenberger	Cash Incentive Compensation	—	\$119,063	\$476,250	\$952,500	—	—	—	—
	Shares (b)	2/12/2020	—	—	—	—	4,988	4,988	\$550,426
	Shares (c)	2/12/2020	—	—	—	1,247	4,988	7,482	\$550,426
Brian J. Lynch	Cash Incentive Compensation	—	\$195,000	\$780,000	\$1,560,000	—	—	—	—
	Shares (b)	2/12/2020	—	—	—	—	5,892	5,892	\$650,182
	Shares (c)	2/12/2020	—	—	—	1,473	5,892	8,838	\$650,182
Patrick Q. Moore	Cash Incentive Compensation	—	\$107,813	\$431,250	\$862,500	—	—	—	—
	Shares (b)	2/12/2020	—	—	—	—	2,608	2,608	\$287,793
	Shares (c)	2/12/2020	—	—	—	652	2,608	3,912	\$287,793
Peter R. Smith	Cash Incentive Compensation	—	\$100,313	\$401,250	\$802,500	—	—	—	—
	Shares (b)	2/12/2020	—	—	—	—	2,608	2,608	\$287,793
	Shares (c)	2/12/2020	—	—	—	652	2,608	3,912	\$287,793

- (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 beginning one year from 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 for fiscal 2020 and service vesting through fiscal 2022. 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.

## OUTSTANDING EQUITY AWARDS AT FISCAL 2020 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 2020. Each outstanding award is represented by a separate row that indicates the number of securities underlying the award.

Name	Option Awards					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) (Exercisable)	Number of Securities Underlying Unexercised Options (#) (a) (Unexercisable)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised 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 . . . .	24,634	24,634	—	\$ 120.25	2/21/2028	141,218	\$ 13,284,377
	51,750	17,250	—	\$ 83.84	2/14/2027		
	44,500	—	—	\$ 90.66	2/16/2026		
	28,000	—	—	\$ 82.40	2/18/2025		
	30,000	—	—	\$ 68.49	2/18/2024		
	50,000	—	—	\$ 59.27	2/20/2023		
	70,000	—	—	\$ 42.61	2/22/2022		
Richard F. Westenberger . . . .	2,524	2,524	—	\$ 120.25	2/21/2028	23,288	\$ 2,190,702
	5,250	1,750	—	\$ 83.84	2/14/2027		
	5,220	—	—	\$ 90.66	2/16/2026		
	3,400	—	—	\$ 82.40	2/18/2025		
	3,800	—	—	\$ 68.49	2/18/2024		
	6,000	—	—	\$ 59.27	2/20/2023		
Brian J. Lynch . . . . .	4,922	4,922	—	\$ 120.25	2/21/2028	29,165	\$ 2,743,552
	10,440	3,480	—	\$ 83.84	2/14/2027		
	10,400	—	—	\$ 90.66	2/16/2026		
	7,000	—	—	\$ 82.40	2/18/2025		
	7,500	—	—	\$ 68.49	2/18/2024		
	4,500	—	—	\$ 59.27	2/20/2023		
Patrick Q. Moore . . . .	2,524	2,524	—	\$ 120.25	2/21/2028	18,928	\$ 1,780,557
	11,175	3,725	—	\$ 85.71	8/16/2027		
Peter R. Smith . . . . .	2,524	2,524	—	\$ 120.25	2/21/2028	14,229	\$ 1,338,522
	5,250	1,750	—	\$ 83.84	2/14/2027		
	5,220	—	—	\$ 90.66	2/16/2026		
	8,200	—	—	\$ 86.88	11/11/2025		

(a) Unexercisable options relate to the awards listed in the table below. These time-based stock options vest in four equal, annual installments beginning one year from the date of the grant.

<u>Name</u>	<u>Grant Date</u>	<u>Time-Based Stock Options Granted</u>	<u>Black-Scholes Fair Value</u>	<u>Option Exercise Price</u>
Michael D. Casey . . . . .	2/21/2018	49,268	\$27.88	\$120.25
	2/14/2017	69,000	\$20.04	\$ 83.84
Richard F. Westenberger . . .	2/21/2018	5,048	\$27.88	\$120.25
	2/14/2017	7,000	\$20.04	\$ 83.84
Brian J. Lynch . . . . .	2/21/2018	9,844	\$27.88	\$120.25
	2/14/2017	13,920	\$20.04	\$ 83.84
Patrick Q. Moore . . . . .	2/21/2018	5,048	\$27.88	\$120.25
	8/16/2017	14,900	\$18.50	\$ 85.71
Peter R. Smith . . . . .	2/21/2018	5,048	\$27.88	\$120.25
	2/14/2017	7,000	\$20.04	\$ 83.84

(b) Equity Incentive Plan awards relate to the following grants:

- The time-based restricted stock awards vest in four equal, annual installments beginning one year from the date of the grant.
- Vesting of the performance-based restricted stock awards granted in fiscal 2018, 2019, and 2020 is contingent upon meeting specific performance targets for fiscal 2020, 2021, and 2020, respectively, and vest in 2021, 2022, and 2023, respectively.

<u>Name</u>	<u>Grant Date</u>	<u>Time-Based Restricted Shares</u>	<u>Performance- Based Restricted Shares</u>	<u>Grant Date Fair Value per Share</u>
Michael D. Casey . . . . .	2/12/2020	27,188	27,188	\$110.35
	2/13/2019	30,948	30,948	\$ 88.87
	2/21/2018	11,436	22,872	\$120.25
	2/14/2017	16,372	32,744	\$ 83.84
Richard F. Westenberger . . .	2/12/2020	4,988	4,988	\$110.35
	2/13/2019	4,504	4,504	\$ 88.87
	2/21/2018	5,336	2,352	\$120.25
	2/14/2017	1,640	3,280	\$ 83.84
Brian J. Lynch . . . . .	2/12/2020	5,892	5,892	\$110.35
	2/13/2019	6,192	6,192	\$ 88.87
	2/21/2018	2,288	4,576	\$120.25
	2/14/2017	3,300	6,600	\$ 83.84
Patrick Q. Moore . . . . .	2/12/2020	2,608	2,608	\$110.35
	11/20/2019	5,744	—	\$100.15
	2/13/2019	3,236	3,236	\$ 88.87
	2/21/2018	1,176	2,352	\$120.25
	8/16/2017	3,204	—	\$ 85.71
Peter R. Smith . . . . .	2/12/2020	2,608	2,608	\$110.35
	2/13/2019	3,236	3,236	\$ 88.87
	2/21/2018	1,176	2,352	\$120.25
	2/14/2017	1,640	3,280	\$ 83.84

(c) Amount based on the closing market price per share of the Company's common stock as traded on the NYSE on December 31, 2020, the last trading day of fiscal 2020, of \$94.07.

## OPTION EXERCISES AND STOCK VESTED IN FISCAL 2020

The following table provides information concerning our NEOs' exercises of stock options and vesting of restricted stock during fiscal 2020. 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.

Name	Option Awards		Stock Awards	
	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 . . . . .	80,000	\$4,567,747	27,319	\$2,885,016
Richard F. Westenberger	—	—	5,845	\$ 632,113
Brian J. Lynch . . . . .	24,500	\$1,019,059	8,078	\$ 865,158
Patrick Q. Moore . . . . .	—	—	3,340	\$ 314,153
Peter R. Smith . . . . .	—	—	3,688	\$ 393,917

- (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 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 that is demonstrated to the Company's Retirement Committee.

Name	Employee Contributions (a)	Company Contributions	Aggregate Earnings (b)	Withdrawals or Distributions	Aggregate Balance (c)
Michael D. Casey	\$ —	\$—	\$ —	\$—	\$ —
Richard F. Westenberger	\$ 7,587	\$—	\$ 28,300	\$—	\$ 229,412
Brian J. Lynch	\$234,750	\$—	\$123,448	\$—	\$1,434,832
Patrick Q. Moore	\$ —	\$—	\$ —	\$—	\$ —
Peter R. Smith	\$183,294	\$—	\$174,583	\$—	\$1,391,580

- (a) All of the amounts reported in this column for Messrs. Westenberger, Lynch, and Smith are also included within the amount reported for that officer in the 2020 Summary Compensation Table.
- (b) None of the amounts reported in this column are reported in the All Other Compensation column of the 2020 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.

### PAY RATIO DISCLOSURE

In August 2015, pursuant to a mandate of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC adopted a rule requiring annual disclosure of the ratio of our median employee’s (the “Median Employee”) annual total compensation to the total annual compensation of the principal executive officer (“PEO”). The Company’s PEO is Mr. Casey.

We identified a Median Employee in fiscal 2020 using the methodology set out below.

Our Median Employee is a part-time employee at one of our U.S. retail locations whose annual total compensation for fiscal 2020 (as calculated pursuant to Item 402(c)(2)(x) of Regulation S-K) was \$5,963. The annual total compensation for fiscal 2020 for our PEO was \$7,297,118. The resulting ratio of our PEO’s pay to the pay of our Median Employee for fiscal 2020 was 1,223:1. The increase in the ratio as compared to 2019 (which was 700:1) is primarily attributable to a decrease in the Median Employee’s compensation caused by furloughs, store closures, and reduced store hours in 2020 due to the COVID-19 pandemic.

#### *Methodology to Identify Our Median Employee*

In order to identify our Median Employee, we began with a list of all of our employees, world-wide, who were employed by Carter’s or one of its wholly-owned subsidiaries on October 2, 2020. Of these employees, approximately 23% were full-time employees, 52% were part-time employees, and 25% were seasonal or temporary employees. Approximately 76% of our employees were employed in our retail stores in North America, and approximately 89% of those retail employees were part-time.

We then calculated each employee’s compensation for 2020. When making this calculation, we:

- consistently used each employee’s total salary for the 2020 calendar year as stated on the gross compensation line on their Form W-2 (or international equivalent);
- annualized salaries for those full-time and part-time employees that were not employed for the full calendar year of 2020 (but we did not annualize seasonal or temporary employee data);
- excluded benefits, such as health care contributions; and
- for compensation paid in currencies other than U.S. dollars, applied an exchange rate into U.S. dollars that was based on rates published by the xe.com on October 2, 2020.



## **TRANSACTIONS WITH RELATED PERSONS, PROMOTERS, AND CERTAIN CONTROL PERSONS**

The Company has a written policy that requires all transactions with related persons involving more than \$120,000 be reviewed by our Chief Financial Officer and General Counsel (or their designees) with our Audit Committee and approved by our Chief Financial Officer and General Counsel (or their designees) or 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 2020.

**SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS,  
DIRECTORS, AND EXECUTIVE OFFICERS**

The following table sets forth the number of shares of Carter’s common stock owned by each of the following parties as of March 22, 2021, or as of such other date as indicated: (a) each person known by Carter’s 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.

<u>Name of Beneficial Owner</u>	<u>Shares</u>	<u>Percent</u>
Wellington Management Group LLP (1) . . . . .	4,991,446	11.4%
JPMorgan Chase & Co. (2) . . . . .	4,565,407	10.4%
The Vanguard Group, Inc. (3) . . . . .	3,849,581	8.8%
BlackRock, Inc. (4) . . . . .	3,563,626	8.1%
Caisse de dépôt et placement du Québec (5) . . . . .	2,849,643	6.5%
Michael D. Casey (6) . . . . .	784,624	1.8%
Brian J. Lynch (6) . . . . .	131,713	*
Richard F. Westenberger (6) . . . . .	109,020	*
Patrick Q. Moore (6) . . . . .	47,250	*
Peter R. Smith (6) . . . . .	51,848	*
Hali Borenstein (6) . . . . .	4,105	*
Amy Woods Brinkley (6) . . . . .	16,822	*
Giuseppina Buonfantino (6) . . . . .	8,802	*
A. Bruce Cleverly (6) . . . . .	9,616	*
Jevin S. Eagle (6) . . . . .	9,827	*
Mark P. Hipp (6) . . . . .	6,199	*
William J. Montgoris (6) . . . . .	35,018	*
Richard A. Noll (6) . . . . .	4,881	*
David Pulver (6) (7) . . . . .	77,047	*
Gretchen W. Schar (6) . . . . .	4,881	*
All directors and executive officers as a group (22 persons) (6) . . . . .	1,527,022	3.5%

\* Indicates less than 1% of our common stock.

- (1) This information is based on Schedule 13G/A, filed with the SEC on February 4, 2021. Wellington Management Group LLP has shared voting power covering 4,494,635 shares and shared dispositive power covering 4,991,446 shares of our common stock; Wellington Group Holdings LLP has shared voting power covering 4,494,635 shares and shared dispositive power covering 4,991,446 shares of our common stock; Wellington Investment Advisors Holdings LLP has shared voting power covering 4,494,635 shares and shared dispositive power covering 4,991,446 shares of our common stock; and Wellington Management Company LLP has shared voting power covering 4,214,762 shares and shared dispositive power covering 4,645,913 shares of our common stock. The address for each entity is c/o Wellington Management Company LLP, 280 Congress Street, Boston, MA 02210.
- (2) This information is based on Schedule 13G/A, filed with the SEC on March 8, 2021. JPMorgan Chase & Co. has sole voting power covering 4,326,872 shares and sole dispositive power covering 4,565,393 shares of our common stock. JPMorgan Chase & Co. has shared voting power covering 11,593 shares of our common stock and shared dispositive power covering 14 shares of our common stock. The address for JPMorgan Chase & Co. is 383 Madison Avenue New York, NY 10179.
- (3) This information is based on Schedule 13G/A, filed with the SEC on February 10, 2021. The Vanguard Group, Inc. has sole dispositive power covering 3,784,839 shares of our common stock. The Vanguard Group, Inc. has shared voting power covering 29,884 shares of our common stock and shared dispositive power covering 64,742 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 January 29, 2021. BlackRock, Inc. has sole voting power covering 3,407,692 shares and sole dispositive power covering 3,563,626 shares of our common stock. The address for BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.

- (5) This information is based on Schedule 13G/A, filed with the SEC on February 16, 2021. Caisse de dépôt et placement du Québec has sole voting power covering 2,849,643 shares and sole dispositive power covering 2,849,643 shares of our common stock. The address for Caisse de dépôt et placement du Québec is 1000, Place Jean-Paul-Riopelle, Montréal (QC) H2Z 2B3, Canada.
- (6) This amount includes the (a) number of shares subject to exercisable stock options, including stock options that will become exercisable during the 60 days after March 22, 2021, and (b) shares of unvested restricted stock and unvested performance stock. See the detail for each NEO and all executive officers as a group below. Mr. Hipp holds 1,186 shares of restricted stock, Mr. Noll holds 1,603 shares of restricted stock, Ms. Schar holds 1,603 shares of restricted stock, and Ms. Borenstein holds 1,442 shares of restricted stock, and are the only independent directors who hold restricted stock.

<u>Name</u>	<u>Owned &amp; Vested Common Stock</u>	<u>Exercisable Stock Options</u>	<u>Restricted Common Stock</u>	<u>Unvested Performance Stock</u>
Michael D. Casey . . . . .	320,205	328,451	105,020	30,948
Richard F. Westenberger . . . . .	45,543	29,206	29,767	4,504
Brian J. Lynch . . . . .	40,211	50,703	34,607	6,192
Patrick Q. Moore . . . . .	4,008	14,961	25,045	3,236
Peter R. Smith . . . . .	8,802	24,206	15,604	3,236
All executive officers as a group . . . . .	449,396	520,299	298,128	56,446

- (7) Mr. Pulver holds 8,000 shares of common stock indirectly through Cornerstone Capital, Inc. and 40,082 shares of common stock indirectly through the Carol Pulver 2020 Trust. Mr. Pulver disclaims beneficial ownership of the shares of common stock held indirectly through the Carol Pulver 2020 Trust.



**PROPOSAL NUMBER TWO**  
**ADVISORY VOTE ON APPROVAL OF EXECUTIVE COMPENSATION**

The Compensation Discussion and Analysis section of this proxy statement beginning on page 21 describes the Company's executive compensation program and the compensation decisions that the Compensation Committee and Board of Directors made in fiscal 2020 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 in the Company's 2020 proxy statement 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.

## 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](http://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, 2021 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 in Rule 3200T. The Audit Committee has received the written disclosures and the letter from PwC required by applicable requirements of the Public Company Accounting Oversight Board 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 that the audited consolidated financial statements for the fiscal year ended January 2, 2021 be included in our Annual Report on Form 10-K for fiscal 2020 for filing with the SEC.

### Submitted by the Audit Committee

Mr. William J. Montgoris, Chairperson  
Mr. Mark P. Hipp  
Ms. Gretchen W. Schar

*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 THREE**  
**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has appointed PwC to serve as the Company’s independent registered public accounting firm for fiscal 2021. The Board is submitting the appointment of PwC as the Company’s independent registered public accounting firm for shareholder ratification and recommends that shareholders ratify this appointment. 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 that 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 will 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 2020 and 2019 were as follows:

	2020	2019
Audit Fees . . . . .	\$2,485,000	\$2,058,000
Audit-Related Fees . . . . .	—	105,000
Tax Fees . . . . .	6,000	—
All Other Fees . . . . .	4,500	4,500
Total Fees . . . . .	\$2,495,000	\$2,167,500

- *Audit Fees* for fiscal years 2020 and 2019 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 year 2019 included procedures related to the pending adoption of a new accounting pronouncement.
- *Tax Fees* for fiscal year 2020 were for assistance with transfer pricing matters.
- *All Other Fees* for fiscal years 2020 and 2019 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 2021.**

**Vote Required**

The approval of Proposal Number Three 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.

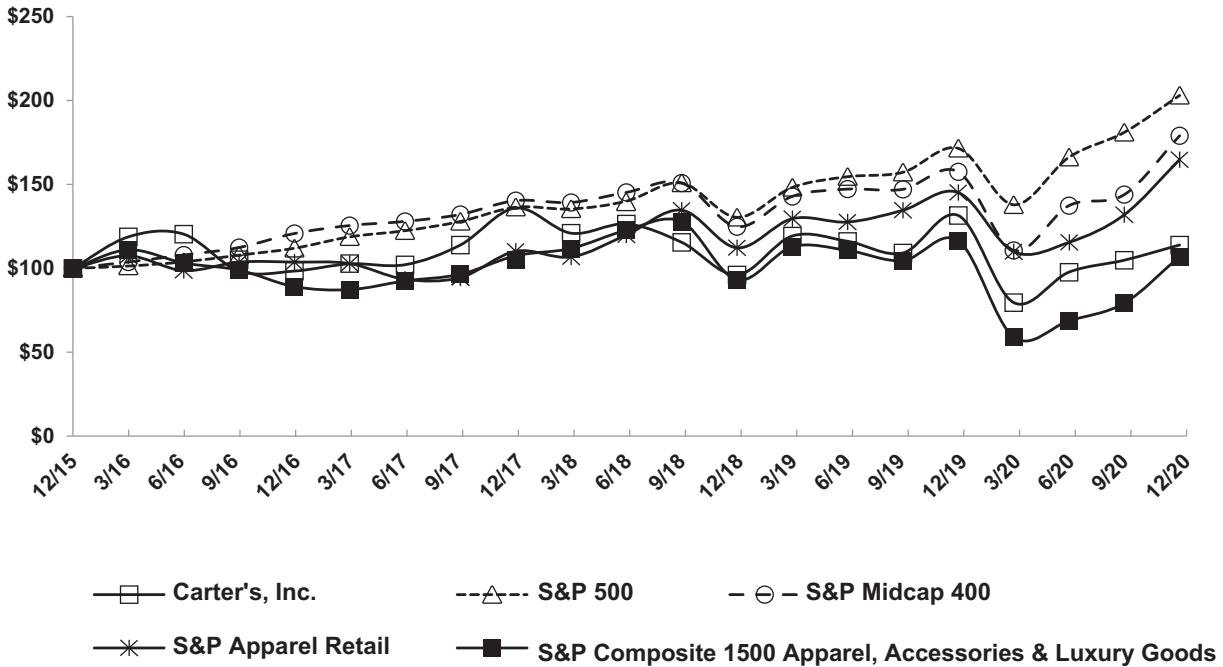
\* \* \*

The following performance graph and return to stockholders information shown below are provided pursuant to Item 201(e) of Regulation S-K promulgated under the Exchange Act. The graph and information are not deemed to be “filed” under the Exchange Act or otherwise subject to liabilities thereunder, nor are they to be deemed to be incorporated by reference in any filing under the Securities Act or Exchange Act unless we specifically incorporate them by reference.

This year we have included a comparison to the S&P Composite 1500 Apparel, Accessories & Luxury Goods Index, which we believe includes companies that are more comparable to Carter’s than those companies that are included in the S&P Apparel Retail Index.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

Among Carter's, Inc., the S&P 500 Index, the S&P Midcap 400 Index, the S&P Apparel Retail Index, and S&P Composite 1500 Apparel, Accessories & Luxury Goods



\*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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# **carter's, inc.**

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**Form 10-K**

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Form 10-K

**2020 Annual Report**

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**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, 2021**

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

**13-3912933**  
(I.R.S. Employer  
Identification No.)

**Phipps Tower**  
**3438 Peachtree Road NE, Suite 1800**  
**Atlanta, Georgia 30326**

(Address of principal executive offices, including zip code)

**(678) 791-1000**

(Registrant's telephone number, including area code)

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

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

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

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company   
Emerging Growth Company

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

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

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

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's common stock on June 27, 2020 as reported on the New York Stock Exchange was \$2,804,873,786. As of February 19, 2021, there were 44,053,137 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the Annual Meeting of shareholders of Carter's, Inc., scheduled to be held on May 20, 2021, 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, 2021.

**CARTER'S, INC.**  
**INDEX TO ANNUAL REPORT ON FORM 10-K**  
**FOR FISCAL YEAR ENDED JANUARY 2, 2021**

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

## PART I

Our market share data is based on information provided by the NPD Group, Inc. (“NPD”). NPD data is based upon Consumer Panel Track<sup>SM</sup> (consumer-reported sales) calibrated with selected retailers’ point of sale data for children’s apparel in the United States (“U.S.”) and represents the twelve-month period through the end of December 2020.

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

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

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 trademarks and copyrights that are referred to in this Annual Report on Form 10-K, including *Carter’s*, *OshKosh*, *OshKosh B’gosh*, *Baby B’gosh*, *Skip Hop*, *Child of Mine*, *Just One You*, *Simple Joys*, *Little Collections*, *Little Planet*, *Carter’s little baby basics*, *Carter’s KID*, *Rewarding Moments*, and *Count on Carter’s*, many of which are registered in the United States and in over 100 other countries and territories, are each the property of one or more subsidiaries of Carter’s, Inc.

The Company’s fiscal year ends on the Saturday in December or January nearest December 31. Every five or six years, our fiscal year includes an additional, or 53<sup>rd</sup>, week of results. Fiscal 2020 ended on January 2, 2021, fiscal 2019 ended on December 28, 2019, and fiscal 2018 ended on December 29, 2018. Fiscal 2020 contained 53 calendar weeks, and fiscal 2019 and fiscal 2018 both contained 52 calendar weeks.

## ITEM 1. BUSINESS

### OVERVIEW

We are the largest branded marketer in North America of apparel exclusively for babies and young children. We own two of the most highly recognized and most trusted brand names in the children's apparel industry, *Carter's* and *OshKosh B'gosh* (or "*OshKosh*"), and a leading baby and young child lifestyle brand, *Skip Hop*.

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

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

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

Our mission is to serve the needs of all families with young children, with a vision to be the world's favorite brands in young children's apparel and products. We believe our brands provide a complementary product offering and aesthetic, are each uniquely positioned in the marketplace, and offer strong value to families with young children. The baby and young children's apparel market ages zero to 10 in the U.S. is approximately \$24 billion. In that market, our *Carter's* brands, including our exclusive brands, have the #1 position with approximately 12% market share and our *OshKosh* brand has approximately 1% market share.

Our multi-channel, global business model, which includes retail stores, eCommerce, and wholesale sales channels, as well as omni-channel capabilities in the United States, enables us to reach a broad range of consumers around the world. At the end of fiscal 2020, our channels included 1,101 retail stores, approximately 19,800 wholesale locations, and eCommerce websites in North America, as well as our international wholesale accounts and licensees who operate in over 90 countries.

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

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

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

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

## Our Brands

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

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

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

*Carter's* is the leading brand in the zero to 10-year-old market in the United States, with particular strength in the zero to two-year-old segment. In fiscal 2020, our multi-channel business model enabled our *Carter's* brands to maintain leading market share of approximately 12% in the zero to 10-year-old market, which represented approximately double the market share of the next largest brand. In addition, our *Carter's* brands maintained the leading market position with approximately 23% in the zero to two-year-old baby market, which represented approximately four times the market share of the next largest brand, and maintained its leading market position with approximately 12% in the three to four-year-old toddler market, which represented nearly double the market share of the next largest brand.

The focus of the *OshKosh* brand is high-quality playclothes, including denim apparel products with multiple wash treatments and coordinating garments, overalls, woven bottoms, knit tops, and bodysuits for everyday use. Our *OshKosh* brand is generally positioned towards an older age segment and at slightly higher average prices relative to the *Carter's* brand. We believe our *OshKosh* brand has significant brand name recognition, which consumers associate with high-quality, durable, and authentic playclothes for young children. In fiscal 2020, our *OshKosh* brand's market share was approximately 1% of the zero to 10-year-old apparel market in the United States.

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

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

### *Licensed Products*

We license our *Carter's*, *OshKosh*, *Child of Mine*, *Just One You*, *Simple Joys*, and *Carter's little baby basics* brands to partners to expand our product offerings to include footwear, outerwear, accessories (such as hair accessories and jewelry), toys, paper goods, home décor, cribs and baby furniture, and bedding. As of the end of

fiscal 2020, we had eight licensees who manufacture products under these brands. These licensing partners develop and sell products through our multiple sales channels, while leveraging our brand strength, customer relationships, and designs. Licensed products provide our customers with a range of lifestyle products that complement and expand upon our baby and young children’s apparel offerings. Our license agreements require strict adherence to our quality and compliance standards and provide for a multi-step product approval process. We work in conjunction with our licensing partners in the development of their products to ensure that they fit within our brand vision of high-quality products at attractive prices to provide value to the consumer.

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

### ***Skip Hop***

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

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

### **Our Sales Channels**

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

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

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

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

Each of our stores carry an assortment of *Carter’s*, *OshKosh*, and/or *Skip Hop* branded products, as well as other products, depending on the store and location. Our stores average approximately 5,000 square feet per location, ranging from on average approximately 4,300 square feet per location for our formerly single-branded stores to approximately 7,400 square feet for our stores that consist of adjacent and connected *Carter’s* and *OshKosh* stores. As of the end of fiscal 2020, in the United States we operated 864 stores.

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

We also sell our products through our U.S. eCommerce websites, which were re-launched in fiscal 2019, at [www.carters.com](http://www.carters.com), [www.oshkoshbgosh.com](http://www.oshkoshbgosh.com), [www.oshkosh.com](http://www.oshkosh.com), and [www.skiphop.com](http://www.skiphop.com), and our mobile application, which was re-launched in fiscal 2020.



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

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

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

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

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

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

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

### ***International***

Our International segment includes sales of our products through our retail stores and eCommerce sites in Canada and Mexico. As of the end of fiscal 2020, in Canada we operated 193 co-branded *Carter’s* and *OshKosh* retail stores and an eCommerce site at [www.cartersoshkosh.ca](http://www.cartersoshkosh.ca), and in Mexico we operated 44 retail stores and an eCommerce site at [www.carter.com.mx](http://www.carter.com.mx).

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

In addition, we license our *Carter’s* and *OshKosh* brands to international customers that sell our products through branded retail and online stores, as well as to wholesale customers, within their licensed territories. Our International segment includes sales of our products to these licensees, and royalty income based on sales made by certain licensees. As of the end of fiscal 2020, we had approximately 38 international licensees who operated in over 90 countries.

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

For all of our brands, our marketing is predominantly focused on driving brand preference and engagement with millennial customers, including through strengthening and evolving our digital programs. Our omni-channel approach allows the customer to experience our brands as a seamless shopping experience in the channel of their choice. In fiscal 2019, we launched capabilities to allow our customers to buy on-line and pick-up in store, complementing our existing buy-on-line, ship-to-store and in-store buy on-line services. In fiscal 2020, we continued to enhance and expand our omni-channel capabilities, including curbside pick-up at our retail stores.

We operate our *Rewarding Moments* loyalty and rewards program in the United States to drive customer traffic, sales, and brand loyalty. This program is integrated across our U.S. retail stores and online businesses. During fiscal 2020, our U.S. retail sales were predominantly made to customers who are members of *Rewarding Moments*.

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

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

### **Our Global Sourcing Network**

We do not own any raw materials or manufacturing facilities. We source all of our garments and other products from a global network of third-party suppliers, primarily located in Asia. We source the remainder of our products primarily through Central America. During fiscal 2020, approximately 76% of our product was sourced from Cambodia, Vietnam, China, and Bangladesh, and approximately 78% of the fabric that is used in the manufacture of our products is sourced from China, with the remainder primarily from Bangladesh, Thailand, and Taiwan.

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

Prior to placing production, and on a recurring basis, we conduct assessments of political, social, economic, trade, labor and intellectual property protection conditions in the countries in which we source our products, and we conduct assessments of our manufacturers and supply chain, as discussed under "—Corporate Social Responsibility" below. In connection with the manufacture of our products, manufacturers purchase raw materials including fabric and other materials (such as linings, zippers, buttons, and trim) at our direction. Prior to commencing the manufacture of products, samples of raw materials are sent to us for approval. We regularly inspect and supervise the manufacture of our products in order to maintain quality control, monitor compliance with our manufacturing specifications and social responsibility standards and to ensure timely delivery. We also inspect finished products at the manufacturing facilities.

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

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

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

### **Corporate Social Responsibility**

We have adopted a factory on-boarding program that allows us to assess each factory's compliance with our social responsibility standards before we place orders for product with that factory, including factories utilized by

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

### **Our Global Distribution Network**

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

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

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

### **Governmental Regulation**

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

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

A substantial portion of our products is imported into the United States, Canada, and Mexico. These products are subject to various customs laws, which may impose tariffs, as well as quota restrictions. In addition, each of the

countries in which our products are sold has laws and regulations covering imports. The United States and other countries in which our products are sold may impose, from time to time, new duties, tariffs, surcharges, or other import controls or restrictions, or adjust presently prevailing duty or tariff rates or levels. We, therefore, actively monitor import restrictions and developments and seek to minimize our potential exposure to import related risks through shifts of production among countries, including consideration of countries with tariff preference and free trade agreements, manufacturers, and geographical diversification of our sources of supply.

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

## **Competition**

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

## **Seasonality and Weather**

We experience seasonal fluctuations in our sales and profitability due to the timing of certain holidays and key retail shopping periods, which generally have resulted in lower sales and gross profit in the first half of our fiscal year versus the second half of the year. Accordingly, our results of operations during the first half of the year may not be indicative of the results we expect for the full fiscal year. In addition, our business is susceptible to unseasonable weather conditions, which could influence consumer trends, customer traffic, and shopping habits. For example, extended periods of unseasonably warm temperatures during the winter season or cool temperatures during the summer season could affect the timing of, and reduce or shift, demand.

## **Human Capital Resources**

As of the end of fiscal 2020, we had approximately 18,000 employees globally. Of these, approximately 14,000 of our employees worked in our retail stores across North America, 2,200 employees worked in our distribution centers, and 1,800 employees worked in our various corporate offices around the world. Approximately 15,200 employees worked in the United States, 2,100 employees worked in Canada, 300 employees worked in Mexico, and 400 employees worked in other countries, including Hong Kong. As of the end of fiscal 2020, approximately 150 employees were unionized employees, all of whom were in Mexico. We believe we have good labor relationships with our employees.

## ***Talent and Development***

Everything we do is guided by our core values:

- Act with Integrity
- Exceed Expectations

- Inspire Innovation
- Succeed Together
- Invest in People

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

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

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

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

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

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

### **Available Information**

Our primary internet address is [www.carters.com](http://www.carters.com). On our investor relations website ([ir.carters.com](http://ir.carters.com)), we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, director and officer reports on Forms 3, 4, and 5, and any amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC reports can be accessed through the investor relations section of our website. We also make available on our website the *Carter’s Code of Ethics*, our corporate governance principles, and the charters for the Compensation, Audit, and Nominating and Corporate Governance Committees of the Board of Directors. The

information contained on our website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K or any other reports we file with or furnish to the SEC. The SEC maintains an internet site, [www.sec.gov](http://www.sec.gov), containing reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC.

## **ITEM 1A. RISK FACTORS**

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

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

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

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

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

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

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

Both retail and wholesale consumer demand for young children’s apparel and accessories, specifically brand name apparel products, is affected by the overall level of consumer spending. Overall spending in the market is affected by a number of global and macroeconomic factors, such as overall economy and employment levels, uncertainty in the political climate, gasoline and utility costs, business conditions, availability of consumer credit, tax rates, the availability of tax credits, interest rates, levels of consumer indebtedness, foreign currency exchange rates, weather, and overall levels of consumer confidence. Additionally, birth rate fluctuations, which in turn affect the number of customers that are acquired and retained, can have a material impact on consumer spending and our business. For instance, in recent years we have seen a reduction in the birth rate in the United States, and a reduction in the size of the market for young children’s apparel and accessories. Reductions, or lower-than-expected growth, in the level of discretionary or overall end consumer spending may have a material adverse effect on our sales and results of operations.

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

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

We believe that our continued success depends on our ability to create products that provide a compelling value proposition for our consumers in all of our distribution channels. There can be no assurance that the demand for our products will not decline, or that we will be able to successfully and timely evaluate and adapt our products to changes in consumer tastes and preferences or fashion trends. If demand for our products declines, promotional pricing may be required to sell out-of-season or excess merchandise, and our profitability and results of operations could be adversely affected.

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

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

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

Although we maintain policies with our employees, 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 practices. A violation of our vendor policies, licensee agreements, health and safety standards, labor laws, anti-bribery laws, or other policies or laws by these employees, vendors, 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 reputations of our brands are maintained through license and vendor agreements, there can be no guarantee that our brand image will not be negatively affected through its association with products or actions of our licensees or vendors.

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

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

## Risks Related to Operating a Global Business

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

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

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

A significant amount of our business is with our wholesale customers. For fiscal 2020, we derived approximately 33% of our consolidated net sales from our U.S. Wholesale segment and approximately 32% of our consolidated net sales from our top ten wholesale customers. As of the end of fiscal 2020, approximately 92% of our gross accounts receivable were from our ten largest wholesale customers, with three of these customers having individual receivable balances in excess of 10% of our total accounts receivable. Furthermore, we do not enter into long-term sales contracts with our major wholesale customers, relying instead on product performance, long-standing relationships, and our position in the marketplace.

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

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

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

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



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

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

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

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

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

There can be no assurance that we will be able to successfully anticipate changing consumer preferences and product trends or economic conditions and, as a result, we may not successfully manage inventory levels to meet our future order requirements. If we fail to accurately forecast consumer demand, we may experience excess inventory levels or a shortage of product required to meet the demand. Inventory levels in excess of consumer demand may result in inventory write-downs (which occurred, for example, in the first fiscal quarter of 2020 due to the COVID-19 pandemic) and the sale of excess inventory at discounted prices, which could have an adverse

effect on the image and reputation of our brands and negatively impact profitability. On the other hand, if we underestimate demand for our products, our 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.

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

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

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

We have operations in Canada, Mexico, and Asia, and our vendors, independent manufacturers, and licensees are located around the world. The value of the U.S. dollar against other foreign currencies has experienced significant volatility in recent years. While our business is primarily conducted in U.S. dollars, we source substantially all of our production from Asia, and we generate significant revenues in Canada. Cost increases caused by currency exchange rate fluctuations could make our products less competitive or have a material adverse effect on our profitability. Currency exchange rate fluctuations could also disrupt the businesses of our 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.

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

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

In addition, there is concern that climate changes could cause significant changes in weather patterns around the globe and an increase in the frequency and severity of natural disasters. These changes may increase the effects described above, and changing weather patterns could result in decreased agricultural productivity in certain regions, which may limit availability and/or increase the cost of certain key materials, such as cotton. Public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation and raw

material costs, and may require us to make additional investments in facilities and equipment. As a result, the effects of climate change could have a long-term adverse impact on our business and results of operations.

### **Risk Relating to Litigation**

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

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

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

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

***Our systems, and those of our vendors, 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, 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, modify, or block our access to our private and sensitive internal and third-party information, including credit card information and personally identifiable 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 (including the E.U. General Data Protection Act and the

California Consumer Privacy Act) or failing to adequately protect such information. This could result in costly investigations and litigation exceeding applicable insurance coverage or contractual rights available to us, civil or criminal penalties, operational changes, or other response measures, loss of consumer confidence in our security measures, and negative publicity that could adversely affect our financial condition, results of operations, and reputation. Further, if we are unable to comply with the security standards, established by banks and the payment card industry, we may be subject to fines, restrictions, and expulsion from card acceptance programs, which could adversely affect our retail operations.

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

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

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

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

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

- political instability (including between the People’s Republic of China and Hong Kong) or other global events resulting in the disruption of operations or trade in or with foreign countries from which we source our products;
- the occurrence of a natural disaster, unusual weather conditions, or a disease epidemic in foreign countries from which we source our products;
- financial instability, including bankruptcy or insolvency, of one or more of our major vendors;
- the imposition of new regulations relating to imports, duties, taxes, and other charges on imports, including those that the U.S. government has and may implement on imports from China;
- increased costs of raw materials (including cotton and other commodities), labor, fuel, and transportation;
- interruptions in the supply of raw materials, including cotton, fabric, and trim items;
- increases in the cost of labor in our sourcing locations;
- changes in the U.S. customs procedures concerning the importation of apparel products;
- unforeseen delays in customs clearance of any goods;

- disruptions in the global transportation network, such as a port 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; and
- other events beyond our control that could interrupt our supply chain and delay receipt of our products into the United States, Canada, and Mexico.

The occurrence of one or more of these events could result in disruptions to our operations, which in turn could increase our cost of goods sold, decrease our gross profit, or impact our ability to deliver to our customers. For example, in fiscal 2020 the COVID-19 pandemic had a material adverse effect on our sourcing operations, particularly in China and the rest of Asia, and has slowed our ability to import products into North America. Also, in fiscal 2020 and 2021, the U.S. Government took significant steps to address the forced labor concerns in the Xinjiang Uyghur Autonomous Region of China, including withhold release orders issued by U.S. Customs and Border Protection, which may in turn have an effect on global supply chains, including our own supply chains for cotton and cotton-containing products, and the price of cotton in the marketplace.

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

In fiscal 2020, we purchased approximately 58% of our products from ten vendors, of which approximately half comes from three vendors. Additionally, we estimate that approximately 78% of the fabric that is used in the manufacture our products is sourced from China. We expect that we will continue to source a significant portion of our products from these vendors. We do not have agreements with our major vendors that would provide us with assurances on a long-term basis as to adequate supply or pricing of our products. If any of our major vendors decide to discontinue or significantly decrease the volume of products they manufacture for us, raise prices on products we purchase from them, or become unable to perform their responsibilities (e.g., if our vendors become insolvent or experience financial difficulties, manufacturing capacity constraints, or significant labor disputes) our business, results of operations, and financial condition may be adversely affected.

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

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes at third party factories where our goods are produced, the shipping ports we use, or our transportation carriers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during our peak manufacturing and importing times. For example, we source a significant portion of our products through a single port on the west coast of the United States. Work slowdowns and stoppages relating to labor agreement negotiations involving the operators of this west coast port and unions have in the past resulted in a significant backlog of cargo containers entering the United States. In the past, the insolvency of a major shipping company has also had an effect on our supply chain. As a result, we have in the past experienced delays in the shipment of our products. In the event that these slow-downs, disruptions or strikes occur in the future in connection with labor agreement negotiations or otherwise, it may have a material adverse effect on our financial position, results of operations, or cash flows.

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

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

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

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

We handle a large portion of our merchandise distribution for our U.S. stores and our eCommerce operations from our facility in Braselton, Georgia. Our ability to meet consumer expectations, manage inventory, complete sales, and achieve objectives for operating efficiencies depends on proper operation of this facility. If we are not able to distribute merchandise to our stores or customers because we have exceeded our capacity at our distribution facility (such as a high level of demand during peak periods) or because of natural disasters, health issues, accidents, system failures, disruptions, or other events, our sales could decline, which may have a materially adverse effect on our earnings, financial position, and our reputation. In addition, we use an automated system that manages the order processing for our eCommerce business. In the event that this system becomes inoperable for any reason, we may be unable to ship orders in a timely manner, and as a result, we could experience a reduction in our direct-to-consumer business, which could negatively impact our sales and profitability.

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

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

We cannot be sure that we can successfully complete any planned international expansion or that new international business will be profitable or meet our expectations. We do not have significant experience operating in markets outside of North America. Consumer demand, behavior, tastes, and purchasing trends may differ in international markets and, as a result, sales of our products may not be successful or meet our expectations, or the margins on those sales may not be in line with those we currently anticipate. We may encounter differences in business culture and the legal environment that may make working with commercial

partners and hiring and retaining an adequate employee base more challenging. We may also face difficulties integrating foreign business operations with our current operations. Significant changes in foreign laws or relations, such as political uncertainty and potential trade wars between nations in which we operate, may also hinder our success in new markets. Our entry into new markets may have upfront investment costs that may not be accompanied by sufficient revenues to achieve typical or expected operational and financial performance and such costs may be greater than expected. If our international expansion plans are unsuccessful, our results could be materially adversely affected.

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

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

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

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

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

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

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

The implementation of our business strategy periodically involves the execution of complex initiatives, such as acquisitions, which may require that we make significant estimates and assumptions about a project. These

projects could place significant demands on our accounting, financial, information technology, and other systems, and on our business overall. We are dependent on our management's ability to oversee these projects effectively and implement them successfully. If our estimates and assumptions about a project are incorrect, or if we miscalculate the resources or time we need to complete a project or fail to implement a project effectively, our business and operating results could be adversely affected.

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

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

Our ability to attract and retain qualified executive management, marketing, merchandising, design, sourcing, operations, 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.

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

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



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

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

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

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

As of the end of fiscal 2020, we had \$1.00 billion aggregate principal amount of debt outstanding (excluding \$5.0 million of outstanding letters of credit), and \$745.0 million of undrawn availability under our senior secured revolving credit facility after giving effect to \$5.0 million of letters of credit issued under our senior secured revolving credit facility. As a result, our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements, or general corporate or other purposes may be limited, and we may be unable to renew or refinance our debt on terms as favorable as our existing debt or at all.

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

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

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

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

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

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

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

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

#### **GENERAL RISK**

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

Quarterly cash dividends and share repurchases under our share repurchase program have historically been part of our capital allocation strategy. However, in the first fiscal quarter of 2020 we suspended both our quarterly

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

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

The following is a summary of our principal owned and leased properties as of January 2, 2021.

Our corporate headquarters occupies 304,000 square feet of leased space in a building in Atlanta, Georgia. Our lease for that space expires in April 2030. In addition, we occupy leased space in a building in Mississauga, Ontario, which serves as our regional headquarters for Canada, and we occupy leased space in Hong Kong, China, which serves as our principal sourcing office in Asia. We also lease other space in Georgia, Wisconsin, and New York, as well as in Bangladesh, Cambodia, China, Mexico, and Vietnam that, depending on the site, serves as a sourcing, sales, or administrative office. We also own a 224,000 square foot facility in Griffin, Georgia.

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

We also operate the following number of leased retail stores: 864 in the United States, 193 in Canada, and 44 in Mexico. Our average remaining lease term for retail store leases in the United States, Canada, and Mexico is approximately 3.8 years, excluding renewal options.

#### **ITEM 3. LEGAL PROCEEDINGS**

We are subject to various claims and pending or threatened lawsuits in the normal course of our business. The Company is not currently a party to any legal proceedings that it believes would have a material adverse effect on its financial position, results of operations, or cash flows.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

#### HISTORICAL STOCK PRICE AND NUMBER OF RECORD HOLDERS

Our common stock trades on the New York Stock Exchange (NYSE) under the trading symbol CRI. The last reported sale price per share of our common stock on February 19, 2021 was \$92.54. On that date there were 181 holders of record of our common stock.

#### OPEN MARKET SHARE REPURCHASES

The following table provides information about shares repurchased during the fourth quarter of fiscal 2020:

Period	Total number of shares purchased <sup>(1)</sup>	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs <sup>(2)</sup>	Approximate dollar value of remaining shares that can be repurchased under the plans or programs
September 27, 2020 through October 24, 2020 . . . . .	—	\$ —	—	\$650,447,970
October 25, 2020 through November 28, 2020 . . . . .	966	\$ 86.45	—	\$650,447,970
November 29, 2020 through January 2, 2021 . . . . .	—	\$ —	—	\$650,447,970
Total . . . . .	<u>966</u>	<u>\$ 86.45</u>	<u>—</u>	

(1) All of the shares purchased during the current quarter represent shares of our common stock surrendered by our employees to satisfy required tax withholding upon the vesting of restricted stock awards.

(2) In the first quarter of fiscal 2020, the Company announced that, in connection with the COVID-19 pandemic, it suspended its common stock share repurchase program. Refer to open market repurchases as disclosed in Note 9, *Common Stock*, to the consolidated financial statements.

#### Share Repurchase Program

On both February 22, 2018 and February 13, 2020, our Board of Directors authorized an additional \$500 million of share repurchases, for total authorizations, inclusive of authorizations prior to 2018, of up \$1.96 billion.

The total remaining capacity under outstanding repurchase authorizations as of January 2, 2021 was approximately \$650.4 million, based on settled repurchase transactions. The share repurchase authorizations have no expiration dates.

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

	For the fiscal year ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Number of shares repurchased . . . . .	474,684	2,107,472	1,879,529
Aggregate cost of shares repurchased ( <i>dollars in thousands</i> ) . . . . .	\$ 45,255	\$ 196,910	\$ 193,028
Average price per share . . . . .	\$ 95.34	\$ 93.43	\$ 102.70

On March 26, 2020, we announced that, in connection with the COVID-19 pandemic, we suspended our common stock share repurchase program. While we may elect to resume purchases at any time, the timing and amount of any future repurchases will be determined by the Company based on a number of factors, including restrictions under our revolving credit facility, on our evaluation of market conditions, share price, and other investment priorities.

## **DIVIDENDS**

We paid a cash dividend of \$0.60 per share in the first quarter of fiscal 2020. On May 1, 2020, in connection with the COVID-19 pandemic, we suspended our quarterly cash dividend. The Board of Directors will evaluate future dividend declarations based on a number of factors, including restrictions under our revolving credit facility, business conditions, our financial performance, and other considerations. We paid a quarterly cash dividend of \$0.50 per share in each quarter of fiscal 2019. The dividends were paid during the fiscal quarter in which they were declared.

Provisions in our secured revolving credit facility have the effect of restricting our ability to pay cash dividends on, or make future repurchases of, our common stock through the date we deliver our financial statements and associated certificates relating to the third fiscal quarter of 2021, and could have the effect of restricting our ability to do so thereafter, as described in Item 8 “Financial Statements and Supplementary Data” under Note 8, *Long-Term Debt*, to the consolidated financial statements.

## **RECENT SALES OF UNREGISTERED SECURITIES**

None.

## ITEM 6. SELECTED FINANCIAL DATA

Omitted at registrant's option.

## 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 under "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K. Those risk factors expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. Except for any ongoing obligations to disclose material information as required by 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.

For a comparison of our results for fiscal year 2019 to our results for fiscal year 2018 and other financial information related to fiscal year 2018, refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2019 Annual Report on Form 10-K, filed with the SEC on February 24, 2020.

### *Fiscal Years*

Our fiscal year ends on the Saturday in December or January nearest December 31. Every five or six years, our fiscal year includes an additional, or 53<sup>rd</sup>, week of results. Fiscal year 2020 which ended on January 2, 2021, contained 53 calendar weeks. Fiscal year 2019 and 2018 which ended on December 28, 2019 and December 29, 2018, respectively, each contained 52 calendar weeks.

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

### *Our Business*

We are the largest branded marketer in North America of apparel exclusively for babies and young children. We own two of the most highly recognized and most trusted brand names in the children's apparel industry, *Carter's* and *OshKosh B'gosh* (or "*OshKosh*"), and a leading baby and young child lifestyle brand, *Skip Hop*.

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

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

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

Our mission is to serve the needs of all families with young children, with a vision to be the world’s favorite brands in young children’s apparel and products. We believe our brands provide a complementary product offering and aesthetic, are each uniquely positioned in the marketplace, and offer strong value to families with young children. The baby and young children’s apparel market ages zero to 10 in the U.S. is approximately \$24 billion. In that market, our *Carter’s* brands, including our exclusive brands, have the #1 position with approximately 12% market share and our *OshKosh* brand has approximately 1% market share. Our multi-channel, global business model, which includes retail stores, eCommerce, and wholesale sales channels, as well as omni-channel capabilities in the United States, enables us to reach a broad range of consumers around the world. At the end of fiscal 2020, our channels included 1,101 retail stores, approximately 19,800 wholesale locations, and eCommerce websites in North America, as well as our international wholesale accounts and licensees who operate in over 90 countries.

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

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

During fiscal 2020, the global pandemic caused by the spread of the novel strain of coronavirus (“COVID-19”) negatively affected the global economy, disrupted global supply chains, and created significant disruption of the financial and retail markets, including a disruption in consumer demand for baby and children’s clothing and accessories. For more information on the effects the pandemic had on the Company, and our response to the pandemic, see “Recent Developments.”

### *Segments*

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

### *Recent Developments*

In December 2019, an outbreak of COVID-19 began in Wuhan, China. In March 2020, the World Health Organization declared COVID-19 a pandemic and former President Trump declared a national emergency. Federal, state and local governments and private entities mandated various restrictions, including travel restrictions as new waves of the pandemic and new strains of the virus spread across the globe, restrictions on public gatherings, stay at home orders and advisories, and quarantining of people who may have been exposed to the virus. The response to the COVID-19 pandemic has negatively affected the global economy, disrupted global supply chains, and created significant disruption of the financial and retail markets, including a disruption in consumer demand for baby and young children’s clothing and accessories.

The COVID-19 pandemic has had, and will likely continue to have, significant adverse effects on our business, financial condition, and results of operations. During fiscal 2020, the impacts of the COVID-19 pandemic included:

- We have seen lower sales both in our retail and wholesale channels, and some of our wholesale customers have unilaterally extended their payment terms with us.

- During March and April 2020, for the safety of customers and employees, we suspended retail store operations in North America, which had a material effect on the results of operations in our U.S. Retail segment. Stores began reopening in the second quarter of fiscal 2020. During December 2020, we closed a number of our stores again in Canada and Mexico for the safety of our employees and customers, and to comply with local regulation. As of January 2, 2021, there were approximately 133 stores closed in Canada, and we estimate most will remain closed until the middle of the first quarter of fiscal 2021. As of January 2, 2021, we had 940 stores out of 1,101 stores open in North America; stores were opened subject to safety considerations resulting from the progression of the pandemic and related laws and regulations put in place by state and local governments.
- As consumer preferences shifted to our eCommerce channel, we announced our plan to close approximately 25% of our current stores, when leases come up for renewal or where there is a kick-out provision in the lease. Over 100 of these closures are planned by the end of fiscal 2021.
- To improve near-term liquidity in light of the uncertainty and disruption related to COVID-19:
  - in March 2020, we drew \$639.0 million under our secured revolving credit facility;
  - on May 4, 2020, through our wholly owned subsidiary, The William Carter Company (“TWCC”), we successfully amended our revolving credit facility to provide for, among other things, a waiver of financial covenants through the balance of fiscal year 2020, revised covenant requirements through the third quarter of fiscal year 2021, and the ability to raise additional unsecured financing; and
  - on May 11, 2020, we completed the sale of \$500 million principal amount of senior notes at par issued by TWCC, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025.
- During the second and third quarters of fiscal 2020, we used the net proceeds from the notes, along with cash on hand, to repay all of our outstanding borrowings under our secured revolving credit facility. As of January 2, 2021, we had no outstanding borrowings under our secured revolving credit facility, exclusive of \$5.0 million of outstanding letters of credit, and we had approximately \$1.85 billion in total liquidity, including \$1.10 billion cash on hand and \$745.0 million available for future borrowing under our secured revolving credit facility.
- Additionally, to create additional financial flexibility, we reduced costs, inventory commitments, and capital expenditures, during a portion of fiscal 2020. For example:
  - We furloughed all of our U.S. and Canada store associates and certain office-based employees during a portion of the time that our stores were closed. In addition, in the first and fourth quarters of fiscal 2020, the Company announced several organizational restructuring initiatives which included a reorganization of staffing models across multiple functions to drive labor savings and increase efficiencies, the consolidation of certain functions into our corporate headquarters in Atlanta, Georgia, and over 100 planned store closures by the end of fiscal 2021.
  - We implemented temporary tiered salary and Board of Directors’ fee reductions and reduced other compensation-related expenses. During the third quarter of fiscal 2020, we reinstated salaries and Board of Directors’ fees.
  - During the second quarter of fiscal 2020, the Company suspended rent payments under the leases for our temporarily closed stores in North America. The Company resumed making the required rent payments under these leases in the third quarter of fiscal 2020.
  - In the first half of fiscal 2020, we announced that we suspended our share repurchase program and our quarterly cash dividend.



- We also executed substantial reductions in expenses, store occupancy costs, and overall costs, including through reduced inventory purchases. During the third quarter of fiscal 2020, we resumed our strategic investments in information technology, eCommerce, marketing, and omni-channel retail store initiatives.
- Our manufacturing supply chain, which is primarily in Asia, was disrupted due to delays in textile mill and factory openings, delays in workers being able to return to work, and the spread of the pandemic from China to other parts of the world. In addition, ocean and air freight carriers' global operations have been disrupted due to the global shift in demand, leading to delays in shipments and increased costs from Asia to North America and elsewhere.

We cannot estimate with certainty the length or severity of this pandemic, or the extent to which the disruption may materially impact our consolidated financial position, consolidated results of operations, and consolidated cash flows. Refer to risks set forth in "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K.

### *Fiscal Year 2020 Highlights*

- Consolidated net sales decreased \$495.0 million, or 14.1%, to \$3.02 billion in fiscal 2020.
  - The temporary closure of our retail stores, particularly during the months of March, April, May, and for many stores in Canada and Mexico, in December, and a decrease in sales to certain of our wholesale customers as a result of disruptions related to the COVID-19 pandemic, negatively affected our financial results in fiscal 2020.
  - Our eCommerce operations delivered strong growth in fiscal 2020, reflecting higher online demand, enhanced marketing efforts, the relaunch of our enhanced websites in the second half of fiscal 2019, and the launch of our website in Mexico in late fiscal 2019.
  - We continue to see good growth with our exclusive brands; U.S. sales of exclusive brands to our top three wholesale customers grew 12.5%.
  - We also delivered growth in our omni-channel programs during fiscal 2020 due to increased investments and enhancements, including expanding our curbside pickup program and direct-from-store shipment program.
  - The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$32.1 million in additional consolidated net sales.
- Gross profit decreased \$195.1 million, or 12.9%, to \$1.31 billion in fiscal 2020. Gross margin increased 50 basis points ("bps") to 43.4% in fiscal 2020, primarily due to an increase in eCommerce average selling prices as a result of decreased promotions, as well as decreased product costs, partially offset by the recognition of adverse inventory and fabric purchase commitments from disruptions related to the COVID-19 pandemic, increased inventory provisions, and increased inventory-related handling costs. The Company recorded adverse inventory and fabric purchase commitments of \$14.7 million and incremental excess inventory reserve related charges of \$4.9 million in fiscal 2020, primarily due to disruptions related to the COVID-19 pandemic.
- Selling, general and administrative ("SG&A") expenses as a percentage of total net sales ("SG&A rate") increased 420 bps to 36.6% for fiscal 2020. The increase in the SG&A rate was primarily driven by lower net sales as a result of business disruptions related to the COVID-19 pandemic, increased eCommerce distribution and fulfillment costs due to an increase in eCommerce demand, deleverage of retail store expenses, incremental COVID-19 related charges, organizational restructuring charges, impairment charges on operating lease assets, and increased bad debt expense, all partially offset by decreased marketing costs and other reductions in spending.

- COVID-19 related SG&A expenses in fiscal 2020 were \$21.4 million, which primarily included incremental costs of \$12.1 million related to payroll continuation for a period of time for our retail employees and increased employee-related costs at our distribution centers, costs associated with additional protective equipment and cleaning supplies of \$8.9 million, and restructuring costs of \$2.3 million, partially offset by payroll tax benefits of \$3.5 million.
- Operating income decreased \$182.0 million, or 48.9%, to \$189.9 million in fiscal 2020, primarily due to the factors discussed above and the recognition of a \$17.7 million non-cash goodwill impairment charge to the Other International reporting unit, a \$15.5 million non-cash impairment charge related to the *OshKosh* tradename, and an \$11.0 million non-cash impairment charge related to the *Skip Hop* tradename in fiscal 2020, partially offset by the recognition of a \$30.8 million non-cash impairment related to the *Skip Hop* tradename in fiscal 2019 that did not re-occur in fiscal 2020.
- Net income decreased \$154.1 million, or 58.4%, to \$109.7 million in fiscal 2020, primarily due to the factors discussed above and an increase in interest expense due to an increase in weighted-average borrowings during fiscal 2020, partially offset by a \$7.8 million loss on extinguishment of debt recognized as part of our senior note refinancing in fiscal 2019 that did not re-occur in fiscal 2020.
- Diluted net income per common share decreased 57.3% to \$2.50 in fiscal 2020.
- A total of \$71.5 million was returned to our shareholders in fiscal 2020, comprised of \$45.3 million in share repurchases and \$26.3 million in dividends.
- The impacts of the COVID-19 pandemic adversely affected our fiscal 2020 results. However, we were able to improve on our gross and operating margins throughout the second half of fiscal 2020 with strong inventory management, continued progress in improving price realization, a better promotion strategy, and our ability to manage costs in response to decreased sales.
  - Inventory increased 0.9%, compared to December 28, 2019, driven by strong inventory management and sell through of excess inventory.
- Operating cash flow increased 52.3%, compared to fiscal 2019, primarily due to an extension of vendor payment terms and deferrals of retail store lease payments.

## RESULTS OF OPERATIONS

### 2020 FISCAL YEAR ENDED JANUARY 2, 2021 (53 WEEKS) COMPARED TO 2019 FISCAL YEAR ENDED DECEMBER 28, 2019 (52 WEEKS)

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

(dollars in thousands, except per share data)	Fiscal year ended		\$ Change	% / bps Change
	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)		
Consolidated net sales	\$3,024,334	\$3,519,286	\$(494,952)	(14.1)%
Cost of goods sold	1,696,224	2,008,630	(312,406)	(15.6)%
Adverse purchase commitments (inventory and raw materials), net	14,668	2,106	12,562	nm
Gross profit	1,313,442	1,508,550	(195,108)	(12.9)%
<i>Gross profit as % of consolidated net sales</i>	43.4%	42.9%		50 bps
Royalty income, net	26,276	34,637	(8,361)	(24.1)%
<i>Royalty income as % of consolidated net sales</i>	0.9%	1.0%		(10) bps
Selling, general, and administrative expenses	1,105,607	1,140,515	(34,908)	(3.1)%
<i>SG&amp;A expenses as % of consolidated net sales</i>	36.6%	32.4%		420 bps
Goodwill impairment	17,742	—	17,742	nm
Intangible asset impairment	26,500	30,800	(4,300)	(14.0)%
Operating income	189,869	371,872	(182,003)	(48.9)%
<i>Operating income as % of consolidated net sales</i>	6.3%	10.6%		(430) bps
Interest expense	56,062	37,617	18,445	49.0%
Interest income	(1,515)	(1,303)	(212)	16.3%
Other expense (income), net	338	(217)	555	nm
Loss on extinguishment of debt	—	7,823	(7,823)	nm
Income before income taxes	134,984	327,952	(192,968)	(58.8)%
Provision for income taxes	25,267	64,150	(38,883)	(60.6)%
<i>Effective tax rate(*)</i>	18.7%	19.6%		(90) bps
Net income	\$ 109,717	\$ 263,802	\$(154,085)	(58.4)%
Basic net income per common share	\$ 2.51	\$ 5.89	\$ (3.38)	(57.4)%
Diluted net income per common share	\$ 2.50	\$ 5.85	\$ (3.35)	(57.3)%
Dividend declared and paid per common share	\$ 0.60	\$ 2.00	\$ (1.40)	(70.0)%

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

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

### *CONSOLIDATED NET SALES*

Consolidated net sales decreased \$495.0 million, or 14.1%, to \$3.02 billion in fiscal 2020. This decrease primarily reflected the temporary closure of our retail stores, particularly during the months of March, April, May, and for many of our stores in Canada and Mexico, in December, and decreased sales to certain of our wholesale customers as a result of disruptions related to the COVID-19 pandemic, partially offset by an increase in net sales through our eCommerce channel. The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$32.1 million in additional consolidated net sales. Changes in foreign currency exchange rates used for translation in fiscal 2020, as compared to fiscal 2019, had an unfavorable effect on our consolidated net sales of approximately \$4.7 million.

### *GROSS PROFIT AND GROSS MARGIN*

Our consolidated gross profit decreased \$195.1 million, or 12.9%, to \$1.31 billion in fiscal 2020. Consolidated gross margin increased 50 bps to 43.4% in fiscal 2020.

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

The decrease in consolidated gross profit was primarily due to decreased net sales across our businesses. The increase in gross margin was primarily due to an increase in eCommerce average selling prices as a result of decreased promotions, as well as decreased product costs, partially offset by the recognition of adverse inventory and fabric purchase commitments from disruptions related to the COVID-19 pandemic, increased excess inventory provisions, and increased inventory-related handling costs. The Company recorded adverse inventory and fabric purchase commitments of \$14.7 million and incremental inventory reserve related charges of \$4.9 million in fiscal 2020, primarily due to disruptions related to the COVID-19 pandemic.

### *ROYALTY INCOME*

Royalty income decreased \$8.4 million, or 24.1%, to \$26.3 million in fiscal 2020, primarily as a result of decreased licensee sales volume due to business disruptions related to the COVID-19 pandemic. Additionally, in 2019, the Company ended a previous royalty arrangement with Target related to the *Genuine Kids by OshKosh* brand. The Company now sells the *OshKosh* brand to Target directly under a wholesale business model.

### *SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES*

Consolidated SG&A expenses decreased \$34.9 million, or 3.1%, to \$1.11 billion in fiscal 2020 and increased as a percentage of consolidated net sales by approximately 420 bps to 36.6% in fiscal 2020. This increase as a percentage of consolidated net sales was primarily driven by lower net sales as a result of business disruptions related to the COVID-19 pandemic, increased eCommerce distribution and fulfillment costs due to an increase in eCommerce demand, deleverage of retail store expenses, incremental COVID-19 related charges, organizational restructuring charges, impairment charges on operating lease assets, and increased bad debt expense, all partially offset by decreased marketing costs and other reductions in spending.

### *GOODWILL IMPAIRMENT*

During the first quarter of fiscal 2020, the Company's market capitalization declined, and actual and projected sales and profitability decreased as a result of disruptions related to COVID-19. Based on these events, we concluded that a triggering event occurred, and we performed an interim quantitative impairment test as of March 28, 2020. Based upon the results of the impairment test, we recognized a goodwill impairment charge of \$17.7 million during the first quarter of fiscal 2020 which was recorded to the Other International reporting unit in the International segment.

### *INTANGIBLE ASSET IMPAIRMENT*

In the first quarter of fiscal 2020, the Company recorded non-cash impairment charges of \$15.5 million and \$11.0 million related to its *OshKosh* and *Skip Hop* tradename assets that were recorded in connection with the acquisition of OshKosh B'Gosh, Inc. in July 2005 and Skip Hop Holdings, Inc. in February 2017, respectively. The impairment reflected lower-than-expected actual sales, and lower projected sales and profitability due to decreased demand as a result of disruptions related to COVID-19.

During the third quarter of fiscal 2019, the Company recorded a non-cash impairment charge of \$30.8 million related to its *Skip Hop* tradename asset that was recorded in connection with the acquisition of Skip Hop Holdings, Inc. in February 2017.

### *OPERATING INCOME*

Consolidated operating income decreased \$182.0 million, or 48.9%, to \$189.9 million in fiscal 2020 and decreased as a percentage of net sales by approximately 430 bps to 6.3% in fiscal 2020, primarily due to the factors discussed above.

### *INTEREST EXPENSE*

Interest expense increased \$18.4 million, or 49.0%, to \$56.1 million in fiscal 2020. Weighted-average borrowings for fiscal 2020 were \$1.03 billion at an effective interest rate of 5.39%, compared to weighted-average borrowings for fiscal 2019 of \$662.2 million at an effective interest rate of 5.47%.

The increase in weighted-average borrowings during fiscal 2020 was attributable to the issuance of \$500 million in principal amount of senior notes in May 2020, and to temporarily increased borrowings under our secured revolving credit facility. The decrease in the effective interest rate for fiscal 2020 compared to fiscal 2019 was primarily due to lower London Interbank Offered Rate ("LIBOR") for the outstanding borrowings on our variable-rate secured revolving credit facility during the fiscal 2020 period.

### *LOSS ON EXTINGUISHMENT OF DEBT*

During the first quarter of fiscal 2019, loss on extinguishment of debt was \$7.8 million due to the early extinguishment of our \$400 million in aggregate principal amount of 5.25% senior notes due in 2021. Concurrently, we issued \$500 million in aggregate principal amount of 5.625% senior notes due in 2027.

### *INCOME TAXES*

Our consolidated income taxes decreased \$38.9 million, or 60.6%, to \$25.3 million in fiscal 2020 and the effective tax rate decreased approximately 90 bps to 18.7% in fiscal 2020 from 19.6% in fiscal 2019. The lower effective tax rate in 2020 primarily reflects a greater portion of our income earned in jurisdictions with a tax rate lower than the U.S. tax rate partially offset by the impact of goodwill impairments in the first quarter of fiscal 2020 with no corresponding tax benefit.

## NET INCOME

Our consolidated net income decreased \$154.1 million, or 58.4%, to \$109.7 million in fiscal 2020. This decrease was due to the factors previously discussed.

## RESULTS BY SEGMENT—FISCAL YEAR 2020 (53 WEEKS) COMPARED TO FISCAL YEAR 2019 (52 WEEKS)

The following table summarizes net sales and operating income, by segment, for the fiscal years ended January 2, 2021 and December 28, 2019:

(dollars in thousands)	Fiscal year ended				\$ Change	% Change
	January 2, 2021 (53 weeks)	% of consolidated net sales	December 28, 2019 (52 weeks)	% of consolidated net sales		
<b>Net sales:</b>						
U.S. Retail . . . . .	\$1,671,644	55.3%	\$1,884,150	53.5%	\$(212,506)	(11.3)%
U.S. Wholesale . . . . .	996,088	32.9%	1,205,646	34.3%	(209,558)	(17.4)%
International . . . . .	356,602	11.8%	429,490	12.2%	(72,888)	(17.0)%
Consolidated net sales . . . . .	<u>\$3,024,334</u>	<u>100.0%</u>	<u>\$3,519,286</u>	<u>100.0%</u>	<u>\$(494,952)</u>	<u>(14.1)%</u>
		<u>% of segment net sales</u>		<u>% of segment net sales</u>		
<b>Operating income (loss):</b>						
U.S. Retail . . . . .	\$ 146,806	8.8%	\$ 225,874	12.0%	\$(79,068)	(35.0)%
U.S. Wholesale . . . . .	141,456	14.2%	212,558	17.6%	(71,102)	(33.5)%
International . . . . .	(1,224)	(0.3)%	36,650	8.5%	(37,874)	(103.3)%
Unallocated corporate expenses . . . . .	<u>(97,169)</u>	n/a	<u>(103,210)</u>	n/a	<u>6,041</u>	5.9%
Consolidated operating income . . . . .	<u>\$ 189,869</u>	<u>6.3%</u>	<u>\$ 371,872</u>	<u>10.6%</u>	<u>\$(182,003)</u>	<u>(48.9)%</u>

## COMPARABLE SALES METRICS

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

### U.S. RETAIL

U.S. Retail segment net sales decreased \$212.5 million, or 11.3%, to \$1.67 billion in fiscal 2020. The decrease in net sales was primarily driven by temporary store closures and decreased retail store traffic in response to the COVID-19 pandemic, partially offset by an increase in eCommerce sales. The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$18.2 million in additional sales to the U.S. Retail segment.

As of January 2, 2021, we operated 864 retail stores in the U.S. compared to 862 (excluding five temporary *Skip Hop* stores) in fiscal 2019. All stores were open as of January 2, 2021.

U.S. Retail segment operating income decreased \$79.1 million, or 35.0%, to \$146.8 million in fiscal 2020. Operating income in fiscal 2020 included intangible asset impairment charges of \$13.6 million and \$0.5 million related to the *OshKosh* and *Skip Hop* tradenames, respectively. Operating income in fiscal 2019 included an

intangible asset impairment charge of \$1.2 million related to the *Skip Hop* tradename. Operating margin decreased 320 bps to 8.8% in fiscal 2020. The primary drivers of the decrease in operating margin were a 190 bps increase in gross margin, a 20 bps decrease in royalty income, a 420 bps increase in SG&A rate (SG&A as a percentage of net sales), and the incremental intangible asset impairment charges. The increase in gross margin was primarily due to an increase in eCommerce average selling prices, as a result of decreased promotions, and decreased product costs, partially offset by the recognition of adverse inventory and fabric purchase commitments from disruptions related to the COVID-19 pandemic and increased inventory related handling costs. The decrease in royalty income was primarily due to decreased licensee sales volumes due to business disruptions related to the COVID-19 pandemic. The increase in the SG&A rate was primarily due to increased eCommerce distribution and fulfillment costs due to an increase in eCommerce demand, incremental COVID-19 related charges, deleverage of retail store expenses due to store closures and reduced store traffic, impairment charges on operating lease assets, investments in the U.S. Retail business and technology initiatives, and organizational restructuring charges, partially offset by decreased marketing costs and other reductions in spending.

#### *U.S. WHOLESALE*

U.S. Wholesale segment net sales decreased \$209.6 million, or 17.4%, to \$996.1 million in fiscal 2020, primarily due to decreased sales to certain of our wholesale customers as a result of disruptions related to COVID-19, partially offset by an increase in net sales in our exclusive *Carter's* brands and an increase in average selling price per unit. The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$10.6 million in additional sales to the U.S. Wholesale segment.

U.S. Wholesale segment operating income decreased \$71.1 million, or 33.5%, to \$141.5 million in fiscal 2020. Operating income in fiscal 2020 included intangible asset impairment charges of \$6.8 million and \$1.6 million related to the *Skip Hop* and *OshKosh* tradenames, respectively. Operating income in fiscal 2019 included an intangible asset impairment charge of \$19.1 million related to the *Skip Hop* tradename. Operating margin decreased 340 bps to 14.2% in fiscal 2020. The primary drivers of the decrease in operating margin were a 210 bps decrease in gross margin, a 20 bps decrease in royalty income, a 190 bps increase in SG&A rate, and decreased intangible asset impairment charges. The decrease in gross margin was primarily due to the recognition of adverse inventory and fabric purchase commitments from disruptions related to the COVID-19 pandemic, increased excess inventory provisions, and unfavorable customer mix, partially offset by an increase in average selling price per unit and decreased product costs. The decrease in royalty income was primarily a result of our customers' business disruptions and temporary store closures related to COVID-19 and the initiation of wholesale sales of the *OshKosh* brand at Target, which replaced a former royalty business model. The increase in the SG&A rate was primarily due to decreased sales due to customers' business disruptions and temporary store closures as a result of the COVID-19 pandemic, incremental COVID-19 related charges, and increased bad debt expense, partially offset by decreased selling expenses as a result of fewer units sold and other reductions in spending.

#### *INTERNATIONAL*

International segment net sales decreased \$72.9 million, or 17.0%, to \$356.6 million in fiscal 2020. Changes in foreign currency exchange rates, primarily between the U.S. dollar and the Mexican peso and between the U.S. dollar and the Canadian dollar, had a \$4.7 million unfavorable effect on International segment net sales in fiscal 2020. The decrease in net sales is primarily due to a decrease in retail store sales in Canada and Mexico driven by temporary store closures in response to COVID-19 and decreased wholesale shipments to our international partners as a result of COVID-19, partially offset by growth in Canadian eCommerce and the addition of our Mexico eCommerce business in late fiscal 2019. The 53<sup>rd</sup> week in fiscal 2020 contributed approximately \$3.3 million in additional sales to the International segment.

As of January 2, 2021, we operated 193 retail stores in Canada, of which 60 were open, compared to 201 in fiscal 2019. The Company expects to reopen most of the closed stores in Canada in the middle of the first quarter of

fiscal 2021. As of January 2, 2021, we operated 44 retail stores in Mexico, of which 16 were open, compared to 46 in fiscal 2019.

International segment operating income decreased \$37.9 million, or 103.3%, to a \$1.2 million operating loss in fiscal 2020. Operating loss in fiscal 2020 included a \$17.7 million goodwill impairment charge recorded to the Other International reporting unit, a \$3.7 million intangible asset impairment charge related to the *Skip Hop* tradename, and a \$0.3 million intangible asset impairment charge related to the *OshKosh* tradename. Operating income in fiscal 2019 included an intangible asset impairment charge of \$10.5 million related to the *Skip Hop* tradename.

Operating margin decreased 880 bps to (0.3)% in fiscal 2020. The decrease in the operating margin was primarily attributable to the goodwill impairment charge partially offset by decreased intangible asset impairment charges, a 160 bps decrease in gross margin, and a 400 bps increase in the SG&A rate. The decrease in gross margin was primarily due to the recognition of adverse inventory and fabric purchase commitments from disruptions related to the COVID-19 pandemic and increased excess inventory provisions, increased inbound transportation costs, and product mix, partially offset by an increase in eCommerce average selling prices and decreased product costs. The increase in the SG&A rate was primarily due to a deleverage of retail stores and distribution expenses as a result of temporary store closures and reduced store traffic, incremental COVID-19 related charges, increased eCommerce distribution and fulfillment costs due to an increase in eCommerce demand, and increased bad debt expense, partially offset by decreased marketing costs and other reductions in spending.

#### *UNALLOCATED CORPORATE EXPENSES*

Unallocated corporate expenses decreased \$6.0 million, or 5.9%, to \$97.2 million in fiscal 2020. Unallocated corporate expenses, as a percentage of consolidated net sales, decreased 30 bps to 3.2% in fiscal 2020. The decrease as a percentage of consolidated net sales was a result of spending reductions, including decreased stock-based compensation expense, partially offset by increased organizational restructuring costs.

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

Our ongoing cash needs are primarily for working capital and capital expenditures. We expect that our primary sources of liquidity will be cash and cash equivalents on hand along with available borrowing capacity under our secured revolving credit facility. In May 2020, through our wholly-owned subsidiary TWCC, we issued \$500 million principal amount of senior notes at par. During the second quarter of fiscal 2020, net proceeds from this issuance, along with cash on hand, were used to pay down \$500 million of then outstanding borrowings under our secured revolving credit facility that was drawn down in March 2020 to improve liquidity. During the third quarter of fiscal 2020, we repaid the remainder of our borrowings under our secured revolving credit facility with cash on hand. Our cash on hand increased by approximately \$888.0 million as of January 2, 2021, compared to December 28, 2019.

We further believe that cash on hand, cash flow from operations, access to additional capital and increased flexibility under financial maintenance covenants, along with reductions in costs, and suspension of our share repurchase program and quarterly cash dividend, will allow us to manage the continuing adverse impact of COVID-19 on our business operations for the foreseeable future. Looking ahead, we have developed contingency plans to reduce costs further if our financial condition deteriorates. We will continue to evaluate our financial position in light of future developments, particularly those relating to COVID-19. We believe that our sources of liquidity will fund our projected requirements for at least the next twelve months. These sources of liquidity may be affected by events described in our risk factors, as discussed under the heading “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

As of January 2, 2021, we had approximately \$1.10 billion of cash and cash equivalents held at major financial institutions, including approximately \$85.8 million held at financial institutions located outside of the United States. We maintain cash deposits with major financial institutions that exceed the insurance coverage limits



provided by the Federal Deposit Insurance Corporation in the United States, and by similar insurers for deposits located outside the United States. To mitigate this risk, we utilize a policy of allocating cash deposits among major financial institutions that have been evaluated by us and third-party rating agencies as having acceptable risk profiles.

### *BALANCE SHEET*

Net accounts receivable at January 2, 2021 were \$186.5 million compared to \$251.0 million at December 28, 2019. The decrease of \$64.5 million, or 25.7%, as compared to December 28, 2019, was primarily a result of reduced customer demand and an increase in our bad debt reserves as a result of COVID-19, offset in part by timing of cash receipts.

Inventories at January 2, 2021 were \$599.3 million compared to \$594.0 million at December 28, 2019. The increase of \$5.3 million, or 0.9%, compared to December 28, 2019, was primarily a result of reduced customer demand and temporary retail store closures in Canada and Mexico at the end of fiscal 2020, partially offset by higher excess inventory provisions from disruptions related to COVID-19.

### *CASH FLOW*

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

Net cash provided by operating activities for fiscal 2020 was \$589.9 million, compared to \$387.2 million in fiscal 2019. Our cash flow provided by operating activities is dependent on net income and changes in our working capital. The increase in net cash provided by operating activities was primarily due to an extension of payment terms and deferrals of retail store lease payments, partially offset by lower earnings related to COVID-19.

Operating cash flow is expected to be unfavorably impacted in fiscal 2021 due to a decrease in payment terms to certain of our vendors and due to the payment of deferred retail store rents from fiscal 2020.

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

Net cash used in investing activities was \$32.9 million in fiscal 2020, compared to \$60.7 million in fiscal 2019. This decrease in net cash used in investing activities for fiscal 2020 is primarily due to a decrease in capital expenditures in response to COVID-19. Capital expenditures in fiscal 2020 primarily included \$10.6 million for our U.S. and international retail store openings and remodelings, \$12.4 million for information technology initiatives, and \$8.3 million for our distribution facilities.

We plan to invest approximately \$50 million in capital expenditures in fiscal 2021, which primarily relates to critical information technology initiatives, U.S. and international retail store renovations and remodels, investments to strengthen our omni-channel capabilities, and distribution facility initiatives.

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

Net cash provided by financing activities was \$324.8 million in fiscal 2020, compared to net cash used of \$283.4 million in fiscal 2019. This increase in net cash provided by financing activities in fiscal 2020 was primarily due to an issuance of \$500 million in principal amount of senior notes in May 2020 to improve our cash position in light of the uncertainty and disruption related to COVID-19, decreased repurchases of common stock, and decreased dividend payments, partially offset by the repayment of the remainder of our borrowings under our secured revolving credit facility with cash on hand.

### *SECURED REVOLVING CREDIT FACILITY*

To improve our cash position in light of the uncertainty and disruption related to COVID-19, we drew \$639.0 million under our secured revolving credit facility in the month of March 2020, and in May 2020 repaid

\$500 million of the outstanding borrowings with the net proceeds of a new \$500 million senior notes offering, as discussed below, and cash on hand. During the third quarter of fiscal 2020, we repaid the remainder of our outstanding borrowings under our secured revolving credit facility with cash on hand. As of January 2, 2021, we had no outstanding borrowings under our secured revolving credit facility, exclusive of \$5.0 million of outstanding letters of credit. As of December 28, 2019, we had \$100.0 million in outstanding borrowings under our secured revolving credit facility, exclusive of \$5.0 million of outstanding letters of credit. As of January 2, 2021 and December 28, 2019, there was approximately \$745.0 million and \$645.0 million available for future borrowing, respectively. All outstanding borrowings under our secured revolving credit facility are classified as non-current liabilities on our consolidated balance sheets due to contractual repayment terms under the credit facility. However, these repayment terms also allow us to repay some or all of the outstanding borrowings at any time.

#### *TERMS OF THE SECURED REVOLVING CREDIT FACILITY*

On August 25, 2017, TWCC and the syndicate of lenders entered into a fourth amended and restated secured revolving credit agreement, which provided for, among other things:

- An extension of the term of the facility to August 25, 2022.
- An increase in the aggregate credit line to \$750 million which includes a \$650 million U.S. dollar facility and a \$100 million multicurrency facility denominated in U.S. dollars, Canadian dollars, Euros, Pounds Sterling, or other currencies agreed to by the applicable lenders. The \$650 million U.S. dollar facility is inclusive of a \$100 million sub-limit for letters of credit and a swing line sub-limit of \$70 million. The \$100 million multicurrency facility is inclusive of a \$40 million sub-limit for letters of credit and a swing line sub-limit of \$15 million. In addition, the amendment provided for incremental borrowing facilities up to \$425 million, which are comprised of an incremental \$350 million U.S. dollar revolving credit facility and an incremental \$75 million multicurrency revolving credit facility. The incremental U.S. dollar revolving credit facility can increase to an unlimited borrowing amount so long as the consolidated first lien leverage ratio (as defined in the secured revolving credit facility) does not exceed 2.25:1.00.
- 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.
- 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")) and 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)) covenants, which were amended by Amendment No.2 (as defined and described below).
- 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.

Under the fourth amended and restated secured revolving credit facility, TWCC and its domestic subsidiaries have granted to the collateral agent, for the benefit of the lenders, valid and perfected first priority security interests in substantially all of their present and future assets, excluding certain customary exceptions, and guarantee the obligations of the borrowers. In addition, The Genuine Canadian Corp., as Canadian borrower, and Carter's Holdings B.V., as Dutch borrower, have each guaranteed the obligations of the other.

On September 21, 2018, TWCC and a syndicate of lenders entered into Amendment No. 1 to its fourth amended and restated credit agreement that, among other things, extended the term of the facility from August 25, 2022 to September 21, 2023.

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

In particular, Amendment No. 2 provided that the Company may issue additional debt securities in an aggregate principal amount of up to \$500 million on or prior to the last day of fiscal 2020 (the “Post-Amendment Debt Issuance”), and must use half of the net cash proceeds from the Post-Amendment Debt Issuance to repay outstanding borrowings under the Secured Revolving Credit Facility (or, if such outstanding borrowings do not exceed an amount equal to half of such net cash proceeds, the amount necessary to repay the borrowings in full). The aggregate gross principal amount outstanding of any Post-Amendment Debt issuance will not count as Consolidated Indebtedness for purposes of leverage determinations under the Secured Revolving Credit Agreement to the extent that the Company’s and certain other subsidiaries’ on-hand cash and cash equivalents is at least equal to the aggregate principal gross amount outstanding of that issuance. On May 11, 2020, TWCC issued \$500 million principal amount of senior notes at par, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025, as more fully described below.

Additionally, Amendment No.2 provided that:

- The Lease Adjusted Leverage Ratio and the Consolidated Fixed Charge Coverage Ratio covenants were waived during the period from and including the second fiscal quarter of 2020 through and including the fourth fiscal quarter of 2020, and thereafter,
  - the Lease Adjusted Leverage Ratio was set at 5.50:1.00 for the first fiscal quarter of 2021 and, during the remainder of 2021, gradually steps down to 4.00:1.00 for the fourth fiscal quarter of 2021 and, subject to the consummation of a Material Acquisition (as defined in Amendment No.2), thereafter.
  - the Consolidated Fixed Charge Coverage Ratio was set at 1.25:1.00 for the first fiscal quarter of 2021 and, during the remainder of 2021 and, gradually steps back up to 1.85:1.00 for the fourth fiscal quarter of 2021 and, subject to the consummation of a Material Acquisition, thereafter.
- During the period from May 4, 2020 through the date the Company delivers its financial statements and associated certificates relating to the third fiscal quarter of 2021 (the “Restricted Period”), the Company must maintain a minimum liquidity (defined as cash-on-hand plus availability under its secured revolving credit facility) on the last day of each fiscal month of at least \$700 million.
- During the Restricted Period, the Company must demonstrate a business need for revolving borrowings if it maintains more than \$700 million of cash on-hand at the time of the draw, subject to certain exceptions.
- During Restricted Period, the availability of certain exceptions to the lien, investment, indebtedness, and restricted payment negative covenants (including those related to dividend payments and share repurchases) are limited or removed, and any incremental credit extensions and the possibility of collateral and covenant release periods are suspended.
- During the Restricted Period, interest rate margins applicable to the secured revolving credit facility were initially 2.125% for LIBOR rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 1.125% to 2.375%) and 1.125% for base rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 0.125% to 1.375%). Amendment No. 2 also provided for a commitment fee initially equal to 0.35% per annum, and ranging thereafter from 0.15% per annum to

0.40% per annum based upon a leverage-based pricing grid, which is payable quarterly in arrears with respect to the average daily unused portion of the revolving loan commitments.

Approximately \$1.2 million, including both bank fees and other third-party expenses, has been capitalized in connection with Amendment No. 2 and is being amortized over the remaining term of the secured revolving credit facility.

Weighted-average borrowings for fiscal 2020 were \$212.2 million compared to weighted-average borrowings for fiscal 2019 of \$182.5 million. The increase in weighted-average borrowings for fiscal 2020 was primarily due to increased borrowings in the first half of fiscal 2020 to improve our cash position in light of the uncertainty and disruption related to COVID-19.

As of January 2, 2021, the interest rate margins applicable to the amended revolving credit facility were 1.625% for LIBOR rate and 0.625% for base rate loans. There were no U.S. dollar borrowings or foreign currency borrowings outstanding on January 2, 2021. As of December 28, 2019, U.S. dollar borrowings outstanding under the secured revolving credit facility accrued interest at a LIBOR rate plus the applicable base rate, which resulted in a weighted-average borrowing rate of 3.42%. The effective interest rate for fiscal 2020 was 2.84% compared to an effective interest rate of 3.76% for fiscal 2019.

As of January 2, 2021, we were in compliance with our financial and other covenants under our secured revolving credit facility.

#### *SENIOR NOTES*

As of January 2, 2021, we had \$500.0 million principal amount of senior notes outstanding, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025, and \$500.0 million principal amount of senior notes outstanding, bearing interest at a rate of 5.625% per annum, and maturing on March 15, 2027. On our consolidated balance sheet, the \$1.00 billion of outstanding senior notes as of January 2, 2021 is reported net of \$10.5 million of unamortized issuance-related debt costs, and the \$500.0 million of outstanding senior notes as of December 28, 2019 is reported net of \$5.3 million of unamortized issuance-related debt costs.

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

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

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

#### *2020 Issuance of Senior Notes*

On May 11, 2020, we issued through TWCC \$500 million principal amount of senior notes at par, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025, all of which were outstanding as of

January 2, 2021. We received net proceeds from the offering of the senior notes of approximately \$494.5 million, after deducting underwriting fees, which we used to repay borrowings outstanding under our secured revolving credit facility. Approximately \$6.5 million, including both bank fees and other third party expenses, has been capitalized in connection with the issuance and is being amortized over the term of the senior notes.

### ***2019 Redemption and Issuance of Senior Notes***

On March 14, 2019, we redeemed \$400.0 million principal amount of senior notes, bearing interest at a rate of 5.25% per annum, and maturing on August 15, 2021, pursuant to the optional redemption provisions of the notes, which required that we pay the outstanding principal plus accrued interest and an early redemption premium of 1.31% of the outstanding principal amounts of the senior notes. This debt redemption resulted in a loss on extinguishment of debt of \$7.8 million, consisting of \$5.2 million of early redemption premiums and \$2.6 million of unamortized debt issuance costs.

Concurrently, we issued through TWCC \$500.0 million principal amount of senior notes at par, bearing interest at a rate of 5.625% per annum, and maturing on March 15, 2027. We received net proceeds from the offering of the senior notes of approximately \$494.8 million, after deducting underwriting fees and other expenses, which we used to redeem the senior notes discussed above and repay borrowings outstanding under our secured revolving credit facility. Approximately \$5.8 million, including both bank fees and other third party expenses, was capitalized in connection with the issuance and is being amortized over the term of the senior notes.

### ***Organizational Restructuring and Office Consolidation***

During the first and fourth quarters of fiscal 2020, we announced several organizational restructuring initiatives which included a reorganization of staffing models across multiple functions to drive labor savings and increase efficiencies, the consolidation of certain functions into our corporate headquarters in Atlanta, Georgia, and over 100 planned store closures by the end of fiscal 2021. In conjunction with these initiatives, we incurred restructuring-related charges of approximately \$16.6 million for fiscal 2020. The Company paid approximately \$4.3 million in severance and other termination benefits during fiscal 2020. As of January 2, 2021, we had approximately \$7.7 million in reserves primarily related to severance and other termination benefits expected to be paid in fiscal 2021. We expect to incur additional restructuring-related charges of approximately \$2.0 million to \$3.0 million through fiscal 2021. These charges primarily relate to accelerated depreciation and severance.

### ***SHARE REPURCHASES***

On February 13, 2020, our Board of Directors authorized an additional \$500 million of share repurchases, for total authorizations, inclusive of authorizations prior to 2019, of up to \$1.96 billion.

Open-market repurchases of our common stock during fiscal years 2020 and 2019 were as follows:

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

The total remaining capacity under outstanding repurchase authorizations as of January 2, 2021 was approximately \$650.4 million, based on settled repurchase transactions. The share repurchase authorizations have no expiration dates.

On March 26, 2020, we announced that, in connection with the COVID-19 pandemic, we suspended our common stock share repurchase program. While we may elect to resume purchases at any time, the timing and amount of

any future repurchases will be determined by the Company based on a number of factors, including restrictions under our revolving credit facility, on our evaluation of market conditions, share price, and other investment priorities.

#### *DIVIDENDS*

We paid a cash dividend of \$0.60 per share in the first quarter of fiscal 2020. On May 1, 2020, in connection with the COVID-19 pandemic, we suspended our quarterly cash dividend. The Board of Directors will evaluate future dividend declarations based on a number of factors, including restrictions under our revolving credit facility, business conditions, our financial performance, and other considerations. We paid a quarterly cash dividend of \$0.50 per share in each quarter of fiscal 2019. The dividends were paid during the fiscal quarter in which they were declared.

Provisions in our secured revolving credit facility have the effect of restricting our ability to pay cash dividends on, or make future repurchases of, our common stock through the date we deliver our financial statements and associated certificates relating to the third fiscal quarter of 2021, and could have the effect of restricting our ability to do so thereafter, as described in Item 8 “Financial Statements and Supplementary Data” under Note 8, *Long-Term Debt*, to the consolidated financial statements.

#### *COMMITMENTS*

The following table summarizes as of January 2, 2021, the maturity or expiration dates of mandatory contractual obligations and commitments for the following fiscal years:

(dollars in thousands)	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
Long-term debt . . . . .	\$ —	\$ —	\$ —	\$ —	\$500,000	\$500,000	\$1,000,000
Interest on debt <sup>(1)</sup> . . . . .	55,625	55,625	55,625	55,625	41,875	42,188	306,563
Operating leases <sup>(2)</sup> . . . . .	206,814	159,350	130,646	105,515	77,134	129,195	808,654
Other . . . . .	231	231	211	—	—	—	673
Total financial obligations . . . . .	\$262,670	\$215,206	\$186,482	\$161,140	\$619,009	\$671,383	\$2,115,890
Letters of credit . . . . .	5,018	—	—	—	—	—	5,018
Total financial obligations and commitments (3) (4) (5)	<u>\$267,688</u>	<u>\$215,206</u>	<u>\$186,482</u>	<u>\$161,140</u>	<u>\$619,009</u>	<u>\$671,383</u>	<u>\$2,120,908</u>

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

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

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

(4) The table above excludes purchase obligations. Our estimate as of January 2, 2021 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 million and \$400 million.

(5) The table above excludes any potential future Company funding for obligations under our defined benefit retirement plans. Our estimates of such obligations as of January 2, 2021 have been determined in accordance with U.S. GAAP and are included in other current liabilities and other long-

term liabilities on our consolidated balance sheet, as described in Item 8 “Financial Statements and Supplementary Data” under Note 11, Employee Benefit Plans, to the consolidated financial statements.

### *LIQUIDITY OUTLOOK*

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

### *SEASONALITY*

We experience seasonal fluctuations in our sales and profitability due to the timing of certain holidays and key retail shopping periods, which generally has resulted in lower sales and gross profit in the first half of our fiscal year versus the second half of the fiscal year. Accordingly, our results of operations during the first half of the year may not be indicative of the results we expect for the full year.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in our accompanying consolidated financial statements. The following discussion addresses our critical accounting policies and estimates, which are those policies that require management’s most difficult and subjective judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

### *REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE ALLOWANCE*

At the beginning of fiscal 2018, we adopted the provisions of Accounting Standards Codification (“ASC”) No. 606, Revenue from Contracts with Customers, and all related amendments (“ASC 606”) using the full retrospective adoption method.

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

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

Our accounts receivable reserves for wholesale customers include an allowance for expected credit losses and an allowance for chargebacks. The allowance for expected credit losses includes estimated losses resulting from the

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

We record cooperative advertising arrangements with certain of our major wholesale customers at fair value. Fair value is determined based upon, among other factors, comparable market analysis for similar advertisements. We have included the fair value of these arrangements of approximately \$0.5 million for fiscal 2020, \$3.1 million for fiscal 2019, and \$3.0 million for fiscal 2018 as a component of SG&A expenses on our consolidated statements of operations, rather than as a reduction of net sales. Amounts determined to be in excess of the fair value of these arrangements are recorded as a reduction of net sales.

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

### *INVENTORY*

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

### *GOODWILL AND TRADENAME*

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

We perform impairment tests of goodwill at the reporting unit level. A qualitative assessment determines if it is “more likely than not” that the fair value of the reporting unit is less than its carrying value. Qualitative factors may include, but are not limited to: macroeconomic conditions; industry and market considerations; cost factors that may have a negative effect on earnings; overall financial performance; and other relevant entity-specific events. If the results of a qualitative test determine that it is “more likely than not” that the fair value of a reporting unit is less than its carrying value, then a goodwill impairment test using quantitative assessments must be performed. If it is determined that it is not “more likely than not” that the fair value of the reporting unit is less than its carrying value, then no further testing is required.

Under a quantitative assessment for goodwill, we compare the fair value of a reporting unit to its carrying value, including goodwill. We use the income approach and the market approach to determine the fair value of a reporting unit. The assumptions used in these approaches include revenue growth and profitability, terminal



values, discount rates, and an implied control premium. These assumptions are consistent with those we believe hypothetical marketplace participants would use. An impairment is recorded for any excess carrying value above the fair value of the reporting unit, not to exceed the carrying value of goodwill.

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

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

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

The goodwill impairment assessment for the Other International reporting unit was performed in accordance with ASC 350, "Intangibles—Goodwill and Other" ("ASC 350") and compares the carrying value of the Other International reporting unit to its fair value. Consistent with prior practice, the fair value of the Other International reporting unit was determined using the income approach and the market approach. As a result of this assessment, a goodwill impairment charge of \$17.7 million was recorded to our Other International reporting unit in the International segment during the first quarter of fiscal 2020. The goodwill impairment charge recorded on our Other International reporting unit included charges of \$9.4 million, \$5.2 million, and \$3.1 million to Skip Hop, Carter's, and Carter's Mexico goodwill, respectively. The carrying value of the Company's goodwill for the Other International reporting unit as of January 2, 2021 was \$11.8 million.

The *OshKosh* and *Skip Hop* indefinite-lived tradename asset assessments were performed in accordance with ASC 350 and were determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of not having to license the tradename from another owner. Based on these assessments, charges of \$15.5 million and \$11.0 million were recorded during the first quarter of fiscal 2020 on our indefinite-lived *OshKosh* and *Skip Hop* tradename assets, respectively. The charge recorded on our indefinite-lived *OshKosh* tradename asset included charges of \$13.6 million, \$1.6 million, and \$0.3 million in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *OshKosh* tradename asset. The charge recorded on our indefinite-lived *Skip Hop* tradename asset included charges of \$6.8 million, \$3.7 million, and \$0.5 million in the U.S. Wholesale, International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset. The carrying values of the Company's indefinite-lived *OshKosh* and *Skip Hop* tradename assets as of January 2, 2021 were \$70.0 million and \$15.0 million, respectively.

In the third quarter of fiscal 2019, the Company's Skip Hop business experienced lower than expected actual and projected sales and profitability due to lower domestic demand, including the loss of a significant customer that

declared bankruptcy (Toys “R” Us), lower international demand and higher product costs primarily driven by tariffs imposed on products sourced from China. As a result, the Company conducted an interim impairment assessment in the third quarter of fiscal 2019 on the value of the Company’s indefinite-lived *Skip Hop* tradename asset that was recorded in connection with the acquisition of Skip Hop Holdings, Inc. in February 2017. The indefinite-lived tradename asset assessment was performed in accordance with ASC 350, “*Intangibles—Goodwill and Other*” and was determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of our ownership of the tradename. Based on this assessment, a charge of \$30.8 million was recorded during the third quarter of fiscal 2019 on our indefinite-lived *Skip Hop* tradename asset. The charge included charges of \$19.1 million, \$10.5 million, and \$1.2 million in the U.S. Wholesale, International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset.

Based upon our most recent annual assessment, performed as of January 2, 2021, there were no further impairments in the values of goodwill or indefinite-lived or definite-lived intangible assets. This annual assessment indicated that each reporting unit’s fair value exceeded its carrying value by at least 53%. The annual assessment also indicated that the *OshKosh* and *Skip Hop* indefinite-lived tradename assets’ fair value exceeded its carrying value by approximately 10% and 40%, respectively. Sensitivity tests on the *OshKosh* indefinite-lived tradename asset showed that a 100 basis point increase in the discount rate, a 10% decrease in forecasted revenues, or a 25 basis point decrease in the royalty rate was needed to change the conclusion. Although the Company determined that no further impairment exists for the Company’s goodwill or indefinite-lived or definite-lived intangible assets, these assets could be at risk for impairment should global economic conditions continue to deteriorate as a result of COVID-19.

#### *ACCRUED EXPENSES*

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

#### *LOSS CONTINGENCIES*

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

#### *ACCOUNTING FOR INCOME TAXES*

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

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

For current and deferred tax provisions, ASC 740 requires entities to account for the effects of new income tax legislation in the same reporting period that the tax legislation is enacted. Changes to tax laws known as the U.S. Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”) were enacted on December 22, 2017. SEC Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, permitted the Company to calculate and recognize provisional tax estimates for the fourth quarter of fiscal 2017 related to the enactment of the 2017 Tax Act. The Company completed its assessment of the implications of the 2017 Tax Act in 2018. The adjustment to income tax expense recorded in 2018 was not material. Additional information is contained in Item 8 “Financial Statements and Supplementary Data” under Note 12, *Income Taxes*, to the consolidated financial statements.

#### *FOREIGN CURRENCY*

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

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

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

As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily between the U.S. dollar and the currencies of Canada and Mexico, we may use foreign currency forward contracts to hedge purchases that are made in U.S. dollars, primarily for inventory purchases in our Canadian and Mexican businesses. As part of a hedging strategy, we may use foreign currency forward exchange contracts that typically have maturities of less than 12 months and provide continuing coverage throughout the hedging period. Historically, these contracts have not been designated for hedge accounting treatment, and therefore changes in the fair value of these contracts were recorded in our consolidated statement of operations. Such foreign currency gains and losses include the mark-to-market fair value adjustments at the end of each reporting period related to any open contracts, as well as any realized gains and losses on contracts settled during the reporting period. Fair values for open contracts are calculated by using readily observable market inputs (market-quoted currency exchange rates), classified as Level 2 within the fair value hierarchy. At January 2, 2021, there were no unsettled foreign currency forward contracts.

#### *EMPLOYEE BENEFIT PLANS*

We sponsor a frozen defined benefit pension plan and other unfunded post-retirement plans. The defined benefit pension and post-retirement plans require an actuarial valuation to determine plan obligations, and related periodic costs. Plan valuations require economic assumptions, including expected rates of return on plan assets, discount rates to value plan obligations and employee demographic assumptions including mortality rates. The

actuarial assumptions used may differ materially from actual results due to changing market and economic conditions. Actual results that differ from the actuarial assumptions are reflected as deferred gains and losses in Accumulated other comprehensive income (loss) within stockholder's equity. Deferred gains and losses that exceed 10% of the greater of the plan's projected benefit obligations or market value of assets are amortized to earnings over the estimated service life of the remaining plan participants.

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

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

### *STOCK-BASED COMPENSATION ARRANGEMENTS*

We 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 the probability assessments.

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

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### CURRENCY AND INTEREST RATE RISKS

In the operation of our business, we have market risk exposures including those related to foreign currency risk and interest rates. These risks, and our strategies to manage our exposure to them, are discussed below.

#### *Currency Risk*

We contract for production with third parties primarily in Asia. While these contracts are stated in U.S. dollars, there can be no assurance that the cost for the future production of our products will not be affected by exchange rate fluctuations between the U.S. dollar and the local currencies of these contractors. Due to the number of currencies involved, we cannot quantify the potential impact that future currency fluctuations may have on our results of operations in future periods.

The financial statements of our foreign subsidiaries that are denominated in functional currencies other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Gains and losses resulting from translating assets and liabilities from the functional currency to U.S. dollars are included in Accumulated other comprehensive income (loss).

Our foreign subsidiaries typically record sales denominated in currencies other than the U.S. dollar, which are then translated into U.S. dollars using weighted-average exchange rates. The changes in foreign currency exchange rates in fiscal 2020, compared to fiscal 2019, negatively affected our International segment's net sales by approximately \$4.7 million.

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

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 currencies of Canada and Mexico, we may use foreign currency forward contracts to hedge purchases that are made in U.S. dollars, primarily for inventory purchases for our Canadian and Mexican operations. As part of this hedging strategy, we may use foreign currency forward exchange contracts with maturities of less than 12 months to provide 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, 2021 were \$212.2 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 2020 by approximately \$2.1 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.**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

We have audited the accompanying consolidated balance sheets of Carter’s, Inc. and its subsidiaries (the “Company”) as of January 2, 2021 and December 28, 2019, and the related consolidated statements of operations, of comprehensive income, of changes in stockholders’ equity and of cash flows for each of the three years in the period ended January 2, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of January 2, 2021, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 2, 2021 and December 28, 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 2, 2021 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 2, 2021, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

### *Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

### *Basis for Opinions*

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

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

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

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

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

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

### ***Indefinite-Lived Tradename Impairment Assessment for Skip Hop and OshKosh***

As described in Notes 2 and 6 to the consolidated financial statements, the Company's consolidated indefinite-lived tradename balance was \$305.2 million as of January 2, 2021, which includes the *OshKosh* tradename of \$70.0 million and the *Skip Hop* tradename of \$15.0 million. Management performs a review for potential impairment annually as of the last day of each fiscal year or whenever significant events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If the carrying amount exceeds the fair value of the tradename, an impairment charge is recognized in the amount of the excess. Due to the decrease in the Company's market capitalization, lower than expected actual sales, and lower projected sales and profitability primarily due to the impacts from the outbreak of COVID-19, management concluded that impairment indicators existed for the first quarter of fiscal 2020. As a result, during the first quarter of fiscal 2020, management conducted an interim quantitative impairment assessment which indicated an impairment charge of \$15.5 million and \$11.0 million related to the *OshKosh* and *Skip Hop* tradename assets, respectively.

Management determines fair value of the tradename using a discounted cash flow model that uses the relief-from-royalty method. Significant assumptions in the impairment model includes estimates of revenue growth rates, terminal value, discount rate, and royalty rate.

The principal considerations for our determination that performing procedures relating to the indefinite-lived tradename impairment assessment for *OshKosh* and *Skip Hop* is a critical audit matter are (i) the significant judgment by management when determining the fair value of the tradenames; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to estimates of revenue growth rates, terminal values, discount rates, and royalty rates; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.



Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's indefinite-lived tradename impairment assessments, including controls over the valuation of the Company's *Skip Hop* and *OshKosh* indefinite-lived tradenames. These procedures also included, among others, (i) testing management's process for determining the fair value estimate of the *Skip Hop* and *OshKosh* tradenames, (ii) evaluating the appropriateness of the relief-from-royalty method, (iii) testing the completeness and accuracy of underlying data used in the estimate, and (iv) evaluating the significant assumptions used by management related to revenue growth rates, terminal values, discount rates, and royalty rates. Evaluating management's assumptions related to revenue growth rates involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the tradename, (ii) the consistency with external market and industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's relief-from-royalty method, terminal value, the discount rate, and royalty rate assumptions.

#### *Goodwill Impairment Assessment for Other International Reporting Unit*

As described in Notes 2 and 6 to the consolidated financial statements, the Company's consolidated goodwill balance was \$211.8 million as of January 2, 2021, and the goodwill associated with the Other International reporting unit was \$11.5 million. Management performs a review for potential impairment annually as of the last day of each fiscal year or whenever significant events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If the carrying amount exceeds the fair value of the reporting unit, an impairment charge is recognized in the amount of the excess. Due to the decrease in the Company's market capitalization, lower than expected actual sales, and lower projected sales and profitability primarily due to the impacts from the outbreak of a COVID-19, management concluded that impairment indicators existed for the first quarter of fiscal 2020. As a result, during the first quarter of fiscal 2020, management conducted an interim quantitative impairment assessment which indicated a goodwill impairment charge of the Other International reporting unit of \$17.7 million. Management determines fair value of the reporting unit using a discounted cash flows ("income approach") and relevant data from guideline public companies ("market approach"). Significant assumptions in the income approach includes estimates of revenue growth and profitability, terminal value, discount rate, and an implied control premium.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment for the Other International reporting unit are (i) the significant judgment by management when determining the fair value measurement of the reporting unit; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to estimates of revenue growth and profitability, terminal value, discount rate, and implied control premium; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the valuation of the Company's Other International reporting unit. These procedures also included, among others, (i) testing management's process for determining the fair value estimate of the Other International reporting unit, (ii) evaluating the appropriateness of the income and market approaches, (iii) testing the completeness and accuracy of underlying data used in the estimate, and (iv) evaluating the reasonableness of significant assumptions related to revenue growth and profitability, terminal value, discount rate and implied control premium. Evaluating management's assumptions related to revenue growth and profitability involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit, (ii) the consistency with external market and industry data, and (iii) whether these

assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's income and market approaches and the terminal value, discount rate, and implied control premium assumptions.

/s/ PricewaterhouseCoopers LLP

Atlanta, Georgia  
February 26, 2021

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

**CARTER'S, INC.**

**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except for share data)

	January 2, 2021	December 28, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents .....	\$1,102,323	\$ 214,311
Accounts receivable, net of allowance for credit losses of \$5,940 and \$6,354, respectively .....	186,512	251,005
Finished goods inventories, net of inventory reserves of \$14,206 and \$9,283, respectively .....	599,262	593,987
Prepaid expenses and other current assets .....	57,927	48,454
Total current assets .....	1,946,024	1,107,757
Property, plant, and equipment, net .....	262,345	320,168
Operating lease assets .....	593,008	687,024
Tradenames, net .....	307,893	334,642
Goodwill .....	211,776	229,026
Customer relationships, net .....	37,510	41,126
Other assets .....	34,024	33,374
Total assets .....	\$3,392,580	\$2,753,117
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 472,140	\$ 183,641
Current operating lease liabilities .....	185,152	160,228
Other current liabilities .....	135,240	131,631
Total current liabilities .....	792,532	475,500
Long-term debt, net .....	989,530	594,672
Deferred income taxes .....	52,770	74,370
Long-term operating lease liabilities .....	554,497	664,372
Other long-term liabilities .....	65,218	64,073
Total liabilities .....	\$2,454,547	\$1,872,987
Commitments and contingencies—Note 18		
Stockholders' equity:		
Preferred stock; par value \$0.01 per share; 100,000 shares authorized; none issued or outstanding at January 2, 2021 and December 28, 2019 .....	\$ —	\$ —
Common stock, voting; par value \$0.01 per share; 150,000,000 shares authorized; 43,780,075 and 43,963,103 shares issued and outstanding at January 2, 2021 and December 28, 2019, respectively .....	438	440
Additional paid-in capital .....	17,752	—
Accumulated other comprehensive loss .....	(32,760)	(35,634)
Retained earnings .....	952,603	915,324
Total stockholders' equity .....	938,033	880,130
Total liabilities and stockholders' equity .....	\$3,392,580	\$2,753,117

See accompanying notes to the consolidated financial statements.

**CARTER'S, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(dollars in thousands, except per share data)

	For the fiscal year ended		
	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)	December 29, 2018 (52 weeks)
Net sales	\$ 3,024,334	\$ 3,519,286	\$ 3,462,269
Cost of goods sold	1,696,224	2,008,630	1,962,113
Adverse purchase commitments (inventory and raw materials), net	14,668	2,106	2,673
Gross profit	1,313,442	1,508,550	1,497,483
Royalty income, net	26,276	34,637	38,930
Selling, general, and administrative expenses	1,105,607	1,140,515	1,144,980
Goodwill impairment	17,742	—	—
Intangible asset impairment	26,500	30,800	—
Operating income	189,869	371,872	391,433
Interest expense	56,062	37,617	34,569
Interest income	(1,515)	(1,303)	(527)
Other expense (income), net	338	(217)	1,416
Loss on extinguishment of debt	—	7,823	—
Income before income taxes	134,984	327,952	355,975
Income tax provision	25,267	64,150	73,907
Net income	<u>\$ 109,717</u>	<u>\$ 263,802</u>	<u>\$ 282,068</u>
Basic net income per common share	\$ 2.51	\$ 5.89	\$ 6.06
Diluted net income per common share	\$ 2.50	\$ 5.85	\$ 6.00
Dividend declared and paid per common share	\$ 0.60	\$ 2.00	\$ 1.80

See accompanying notes to the consolidated financial statements.

**CARTER'S, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(dollars in thousands)

	For the fiscal year ended		
	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)	December 29, 2018 (52 weeks)
Net income .....	\$ 109,717	\$ 263,802	\$ 282,068
Other comprehensive income:			
Unrealized (loss) gain on OshKosh defined benefit plan, net of tax benefit or (tax expense) of \$680, \$(230), and \$80 for the fiscal years 2020, 2019, and 2018, respectively .....	(2,197)	746	(281)
Unrealized (loss) gain on Carter's post-retirement benefit obligation, net of tax benefit or (tax expense) of \$39, \$150, and \$(70) for fiscal years 2020, 2019, and 2018, respectively .....	(144)	(483)	214
Foreign currency translation adjustments .....	5,215	6,442	(11,679)
Total other comprehensive income (loss) .....	2,874	6,705	(11,746)
Comprehensive income .....	\$ 112,591	\$ 270,507	\$ 270,322

Form 10-K

See accompanying notes to the consolidated financial statements.

**CARTER'S, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands)

	For the fiscal year ended		
	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)	December 29, 2018 (52 weeks)
<b>Cash flows from operating activities:</b>			
Net income	\$ 109,717	\$ 263,802	\$ 282,068
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation or property, plant, and equipment	90,284	92,207	85,936
Amortization of intangible assets	3,715	3,747	3,717
Provisions for (recoveries of) excess and obsolete inventory, net	4,866	5,791	(6,954)
Goodwill impairment	17,742	—	—
Intangible asset impairments	26,500	30,800	—
Other asset impairments and loss on disposal of property, plant and equipment, net of recoveries	12,785	452	995
Amortization of debt issuance costs	2,372	1,437	1,746
Stock-based compensation expense	12,830	16,529	14,673
Unrealized foreign currency exchange loss (gain), net	361	(564)	271
Provisions for doubtful (recoveries of) accounts receivable from customers	6,072	(220)	15,801
Loss on extinguishment of debt	—	7,823	—
Deferred income tax (benefit)	(23,254)	(13,300)	(1,018)
Effect of changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	58,275	8,121	(34,448)
Finished goods inventories	(8,063)	(22,474)	(23,692)
Prepaid expenses and other assets	(9,132)	(13,759)	12,121
Accounts payable and other liabilities	284,824	6,823	4,982
Net cash provided by operating activities	\$ 589,894	\$ 387,215	\$ 356,198
<b>Cash flows from investing activities:</b>			
Capital expenditures	\$ (32,871)	\$ (61,419)	\$ (63,783)
Acquisitions of businesses, net of cash acquired	—	—	96
Disposals and recoveries from property, plant, and equipment	—	749	380
Net cash used in investing activities	\$ (32,871)	\$ (60,670)	\$ (63,307)
<b>Cash flows from financing activities:</b>			
Proceeds from senior notes due 2025	\$ 500,000	\$ —	\$ —
Proceeds from senior notes due 2027	—	500,000	—
Payment of senior notes due 2021	—	(400,000)	—
Premiums paid to extinguish debt	—	(5,252)	—
Payments of debt issuance costs	(7,639)	(5,793)	(968)
Borrowings under secured revolving credit facility	644,000	265,000	290,000
Payments on secured revolving credit facility	(744,000)	(361,000)	(315,000)
Repurchase of common stock	(45,255)	(196,910)	(193,028)
Dividends paid	(26,260)	(89,591)	(83,717)
Withholdings from vesting of restricted stock	(5,011)	(4,328)	(6,830)
Proceeds from exercise of stock options	9,008	14,490	10,597
Net cash provided by (used in) financing activities	\$ 324,843	\$ (283,384)	\$ (298,946)
Net effect of exchange rate changes on cash and cash equivalents	6,146	1,073	(2,362)
Net increase (decrease) in cash and cash equivalents	\$ 888,012	\$ 44,234	\$ (8,417)
Cash and cash equivalents, beginning of fiscal year	214,311	170,077	178,494
Cash and cash equivalents, end of fiscal year	\$ 1,102,323	\$ 214,311	\$ 170,077

See accompanying notes to the consolidated financial statements.

CARTER'S, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)

	Common stock - shares	Common stock - \$	Additional paid-in capital	Accumulated other comprehensive (loss) income	Retained earnings	Total stockholders' equity
<b>Balance at December 30, 2017</b> .....	47,178,346	\$ 472	\$ —	\$ (29,093)	\$ 886,037	\$ 857,416
Exercise of stock options .....	261,113	3	10,594	—	—	10,597
Withholdings from vesting of restricted stock .....	(57,554)	(1)	(6,829)	—	—	(6,830)
Restricted stock activity .....	126,638	1	(1)	—	—	—
Stock-based compensation expense .....	—	—	14,673	—	—	14,673
Repurchases of common stock .....	(1,879,529)	(19)	(18,437)	—	(174,572)	(193,028)
Cash dividends declared and paid ...	—	—	—	—	(83,717)	(83,717)
Comprehensive income .....	—	—	—	(11,746)	282,068	270,322
<b>Balance at December 29, 2018</b> ....	<b>45,629,014</b>	<b>\$456</b>	<b>\$ —</b>	<b>\$(40,839)</b>	<b>\$ 909,816</b>	<b>\$ 869,433</b>
Exercise of stock options .....	274,960	3	14,487	—	—	14,490
Withholdings from vesting of restricted stock .....	(46,429)	—	(4,328)	—	—	(4,328)
Restricted stock activity .....	213,030	2	(2)	—	—	—
Stock-based compensation expense .....	—	—	16,529	—	—	16,529
Repurchases of common stock .....	(2,107,472)	(21)	(26,686)	—	(170,203)	(196,910)
Cash dividends declared and paid ...	—	—	—	—	(89,591)	(89,591)
Comprehensive income .....	—	—	—	6,705	263,802	270,507
Reclassification of tax effects(*) .....	—	—	—	(1,500)	1,500	—
<b>Balance at December 28, 2019</b> ....	<b>43,963,103</b>	<b>\$440</b>	<b>\$ —</b>	<b>\$(35,634)</b>	<b>\$ 915,324</b>	<b>\$ 880,130</b>
Exercise of stock options .....	193,645	2	9,006	—	—	9,008
Withholdings from vesting of restricted stock .....	(47,337)	—	(5,011)	—	—	(5,011)
Restricted stock activity .....	145,348	1	(1)	—	—	—
Stock-based compensation expense .....	—	—	12,830	—	—	12,830
Repurchases of common stock .....	(474,684)	(5)	928	—	(46,178)	(45,255)
Cash dividends declared and paid ...	—	—	—	—	(26,260)	(26,260)
Comprehensive income .....	—	—	—	2,874	109,717	112,591
<b>Balance at January 2, 2021</b> .....	<b>43,780,075</b>	<b>\$438</b>	<b>\$ 17,752</b>	<b>\$(32,760)</b>	<b>\$ 952,603</b>	<b>\$ 938,033</b>

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

See accompanying notes to the consolidated financial statements.

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1—THE COMPANY

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

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *PRINCIPLES OF CONSOLIDATION*

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

##### *FISCAL YEAR*

The Company's fiscal year ends on the Saturday in December or January nearest December 31. Every five or six years, our fiscal year includes an additional, or 53<sup>rd</sup>, week of results. Fiscal 2020, ended on January 2, 2021, contained 53 calendar weeks. Fiscal 2019, ended on December 28, 2019, and fiscal 2018, ended on December 29, 2018, contained 52 calendar weeks.

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

##### *USE OF ESTIMATES IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS*

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *REVISION OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS*

During the second quarter of fiscal year 2020, it was determined that there were amounts presented incorrectly in the statement of cash flows for the annual and interim year to date periods subsequent to the December 30, 2018 adoption of ASC 842, *Leases*, due to the presentation of the non-cash impact of the initial and subsequent recognition of the Right of Use ("ROU") assets and lease liabilities within the "Prepaid expenses and other assets" and "Accounts payable and other liabilities" line items, respectively, within operating cash flows. This incorrect presentation had no impact on net cash (used in) provided by operating activities for any of the periods. We assessed the materiality of the incorrect presentation and concluded that the previously issued financial statements were not materially misstated. The presentation errors resulted in an offsetting overstatement of cash used for prepaid expenses and other assets and cash provided by accounts payable and other liabilities of



## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

\$739 million, \$773 million and \$815 million for the three, six and nine-months ended March 30, 2019, June 29, 2019 and September 28, 2019, respectively, \$828 million for the year ended December 28, 2019 and \$29 million for the three months ended March 28, 2020. The accompanying consolidated statement of cash flows appropriately reflect the corrected presentation of these non-cash activities. In addition, the Company has reclassified prior comparable period amounts to present ROU asset amortization and lease liability payment activity on a net basis within the “Accounts payable and other liabilities” line item. The revisions to the three, six and nine-months ended March 30, 2019, June 29, 2019 and September 28, 2019 have been presented in previous Form 10-Q filings. The revisions to the year ended December 31, 2019 have been presented in this Form 10-K. Revisions to the three months ended March 31, 2020 will be presented in a future Form 10-Q filing. We will continue to provide supplemental noncash cash flow disclosure information in the notes to the financial statements.

#### COVID -19

In December 2019, an outbreak of a new strain of coronavirus (“COVID-19”) began in Wuhan, China. In March 2020, the World Health Organization declared COVID-19 a pandemic and former President Trump declared a national emergency. As a result of COVID-19, the Company temporarily closed its retail stores in North America and implemented several actions during fiscal 2020 to enhance liquidity and financial flexibility including the deferral of lease payments, reductions in discretionary spending, amending its revolving credit facility, issuing \$500 million principal amount of senior notes, and suspending dividends and share repurchases.

Beginning in April 2020, the Company suspended rent payments under the leases for our temporarily closed stores in North America and initiated discussions with landlords to obtain rent concessions. The Company considered the Financial Accounting Standards Board’s (“FASB”) recent guidance regarding lease concessions as a result of the effects of the COVID-19 pandemic and has elected to treat these rent concessions as lease modifications. As of January 2, 2021, lease modifications resulting from COVID-19 related rent concessions decreased the Company’s operating lease liabilities by \$23.7 million during fiscal 2020. The Company continues to negotiate lease concessions with landlords. As of the end of the third fiscal quarter, the Company resumed making the required rent payments under these leases.

On May 4, 2020, the Company, through its wholly owned subsidiary, The William Carter Company (“TWCC”), amended its revolving credit facility. This amendment provided for, among other things, a waiver of financial covenants through the balance of fiscal year 2020, revised covenant requirements through the third quarter of fiscal year 2021, and the ability to raise additional unsecured financing at the Company’s discretion. Additionally, on May 11, 2020, TWCC issued \$500 million principal amount of senior notes at par, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025. See Note 8, *Long-Term Debt*, for further details on the amendment to the revolving credit facility and the issuance of \$500 million principal amount of senior notes.

The Company announced in the first half of fiscal 2020, that in connection with the COVID-19 pandemic, it suspended its common stock share repurchase program and its quarterly cash dividend.

The Company also assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts of COVID-19 as of January 2, 2021 and through the date of this report filing. The accounting matters assessed included, but were not limited to, our allowance for credit losses, inventory reserves, adverse inventory and fabric purchase commitments, stock based compensation, and the carrying value of our goodwill and other long-

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

lived assets. Based on these assessments, in fiscal 2020, the Company recorded impairments on operating lease assets and other long-lived assets for our underperforming retail stores of \$9.0 million, adverse inventory and fabric purchase commitments of \$14.7 million, incremental excess inventory reserve related charges of \$4.9 million, intangible asset impairments of \$26.5 million, and goodwill impairment of \$17.7 million. There could be a further material impact to our consolidated financial statements in future reporting periods if, at a future date, the Company determines that these assessments of the magnitude and duration of COVID-19, as well as other factors, were incorrect.

Additional COVID-19 related charges in fiscal 2020 were \$21.4 million, which primarily included incremental costs of \$12.1 million related to payroll continuation for a period of time for our retail employees and increased employee-related costs at our distribution centers, costs associated with additional protective equipment and cleaning supplies of \$8.9 million, and restructuring costs of \$2.3 million, partially offset by a payroll tax benefit of \$3.5 million.

#### *FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS*

##### *TRANSLATION ADJUSTMENTS*

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

##### *TRANSACTION ADJUSTMENTS*

The Company also recognizes gains and losses on transactions that are denominated in a currency other than the respective entity's functional currency. Foreign currency transaction gains and losses also include the impact of intercompany loans with foreign subsidiaries that are marked to market. Foreign currency transaction gains and losses are recognized in earnings, as a separate component of Other expense (income), net, within the consolidated statements of operations. Foreign currency transaction gains and losses related to intercompany loans with foreign subsidiaries that are of a long-term nature are accounted for as translation adjustments and are included in Accumulated other comprehensive income (loss) within the accompanying consolidated balance sheets.

##### *FOREIGN CURRENCY CONTRACTS*

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

values of any unsettled currency contracts are included in other current assets or other current liabilities on the Company's consolidated balance sheet. On the consolidated statement of cash flows, the Company includes all activity, including cash settlement of any contracts, as a component of cash flows from operations.

#### *CASH AND CASH EQUIVALENTS*

The Company considers all highly liquid investments that have original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of deposit accounts and cash management funds invested in U.S. government instruments. These investments are stated at cost, which approximates fair value. Cash equivalents also include amounts due from third-party financial institutions for credit and debit card transactions; these amounts typically settle in less than five days.

#### *CONCENTRATION OF CASH DEPOSITS RISK*

As of January 2, 2021, the Company had approximately \$1.10 billion of cash and cash equivalents in major financial institutions, including approximately \$85.8 million in financial institutions located outside of the United States. The Company maintains cash deposits with major financial institutions that exceed the insurance coverage limits provided by the Federal Deposit Insurance Corporation in the U.S. and by similar insurers for deposits located outside the U.S. To mitigate this risk, the Company utilizes a policy of allocating cash deposits among major financial institutions that have been evaluated by the Company and third-party rating agencies as having acceptable risk profiles.

#### **ACCOUNTS RECEIVABLE**

#### *CONCENTRATION OF CREDIT RISK*

In fiscal 2020, 2019, and 2018, no one customer accounted for 10% or more of the Company's consolidated net sales.

At January 2, 2021, three wholesale customers each had individual receivable balances in excess of 10% of gross accounts receivable, and the total receivable balances due from these three wholesale customers in the aggregate equaled approximately 69% of total gross trade receivables outstanding. At December 28, 2019, three wholesale customers each had individual receivable balances in excess of 10% of gross accounts receivable, and the total receivable balances due from these three wholesale customers in the aggregate equaled approximately 52% of total gross trade receivables outstanding.

#### *VALUATION ACCOUNTS FOR WHOLESALE ACCOUNTS RECEIVABLE*

#### *Accounts Receivable Reserves*

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Sales Returns Reserves*

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

##### *INVENTORIES*

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

##### *LEASES*

At the beginning of fiscal 2019, the Company adopted the provisions of ASC No. 842, *Leases* ("ASC 842"), using a modified retrospective approach. This approach allows the Company to apply the standard and related disclosures to the financial statements for the period of adoption and to apply the old guidance in the comparative periods.

The standard had a material impact on our consolidated balance sheets, but did not have a material impact on our consolidated income statements or statement of cash flows. The most significant impact was the recognition of right of use ("ROU") assets and lease liabilities for operating leases. Finance leases are not material to the Company's consolidated balance sheets, consolidated statements of operations or statements of cash flows.

##### *Financial Presentation*

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

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

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

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Policy Elections*

*Practical Expedient Package* — The Company has elected the following expedients and applied them consistently to all leases:

- The Company will not revisit whether a contract is, or contains, a lease under the ASC 842 definition of a lease.
- The lease classification determined under prior guidance will not be reevaluated under ASC 842.
- Previously capitalized initial direct costs under prior guidance will be carried forward. Any initial direct costs after the effective date will be included within the ROU asset under ASC 842.

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

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

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

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

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

#### *PROPERTY, PLANT, AND EQUIPMENT*

Property, plant, and equipment are stated at cost, less accumulated depreciation and amortization. When fixed assets are sold or otherwise disposed of, the accounts are relieved of the original cost of the assets and the related accumulated depreciation or amortization and any resulting 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. Leasehold improvements and fixed assets purchased under capital lease are amortized over the lesser of the asset life or related lease term. The Company capitalizes the cost of its fixtures designed and purchased for use at major wholesale accounts. The cost of these fixtures is amortized over 3 years.

#### *INTERNAL-USE SOFTWARE*

The Company purchases software licenses from external vendors and also develops software internally using Company employees and consultants. Software license costs, including certain costs to internally develop software, that meet the applicable criteria are capitalized while all other costs are expensed as incurred. Capitalized software is depreciated or amortized on the straight-line method over its estimated useful lives, from

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3 to 10 years. If a software application does not include a purchased license for the software, such as a cloud-based software application, the arrangement is accounted for as a service contract. Cloud computing implementation costs incurred in a hosting arrangement that is a service contract and that meet the applicable criteria are capitalized and reported in Prepaid expenses and other current assets on the consolidated balances sheets. Any capitalized costs are amortized over the term of the hosting arrangement, and the expense is presented in the same line item within the consolidated statements of operations as the expense for the service contract's fees.

#### *GOODWILL AND OTHER INTANGIBLE ASSETS*

##### *Annual Impairment Reviews*

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

#### *GOODWILL*

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

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

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

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The goodwill impairment assessment for the Other International reporting unit was performed in accordance with ASC 350, “*Intangibles—Goodwill and Other*” (“ASC 350”) and compares the carrying value of the Other International reporting unit to its fair value. Consistent with prior practice, the fair value of the Other International reporting unit was determined using the income approach and the market approach. As a result of this assessment, a goodwill impairment charge of \$17.7 million was recorded to our Other International reporting unit in the International segment during the first quarter of fiscal 2020. The goodwill impairment charge recorded on our Other International reporting unit included charges of \$9.4 million, \$5.2 million, and \$3.1 million to Skip Hop, Carter’s, and Carter’s Mexico goodwill, respectively. The carrying value of the Company’s goodwill for the Other International reporting unit as of January 2, 2021 was \$11.8 million.

#### *Indefinite-lived Tradenames*

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

As discussed above, during the first quarter of fiscal 2020, the Company conducted interim quantitative impairment assessments on the value of the Company’s indefinite-lived *OshKosh* and *Skip Hop* tradename assets that was recorded in connection with the acquisition of OshKosh B’Gosh Inc. in July 2005 and Skip Hop Holdings, Inc. in February 2017, respectively. The *OshKosh* and *Skip Hop* indefinite-lived tradename asset assessments were performed in accordance with ASC 350 and were determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of not having to license the tradename from another owner. Based on these assessments, charges of \$15.5 million and \$11.0 million were recorded during the first quarter of fiscal 2020 on our indefinite-lived *OshKosh* and *Skip Hop* tradename assets, respectively. The charge recorded on our indefinite-lived *OshKosh* tradename asset included charges of \$13.6 million, \$1.6 million, and \$0.3 million in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *OshKosh* tradename asset. The charge recorded on our indefinite-lived *Skip Hop* tradename asset included charges of \$6.8 million, \$3.7 million, and \$0.5 million in the U.S. Wholesale, International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset. The carrying values of the Company’s indefinite-lived *OshKosh* and *Skip Hop* tradename assets as of January 2, 2021 were \$70.0 million and \$15.0 million, respectively.

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Based upon our most recent annual assessment, performed as of January 2, 2021, there were no further impairments in the values of goodwill or indefinite-lived or definite-lived intangible assets. This annual assessment indicated that each reporting unit's fair value exceeded its carrying value by at least 53%. The annual assessment also indicated that the *OshKosh* and *Skip Hop* indefinite-lived tradename assets' fair value exceeded its carrying value by approximately 10% and 40%, respectively. Sensitivity tests on the *OshKosh* indefinite-lived tradename asset showed that a 100 basis point increase in the discount rate, a 10% decrease in forecasted revenues, or a 25 basis point decrease in the royalty rate was needed to change the conclusion. Although the Company determined that no further impairment exists for the Company's goodwill or indefinite-lived or definite-lived intangible assets, these assets could be at risk for impairment should global economic conditions continue to deteriorate as a result of COVID-19.

#### *IMPAIRMENT OF OTHER LONG-LIVED ASSETS*

The Company reviews other long-lived assets, including operating lease assets, property, plant, and equipment, and licensing agreements, for impairment whenever events or changes in circumstances indicate that the carrying amount of such an asset may not be recoverable. Management will determine whether there has been a permanent impairment on such assets held for use 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.

The impact of the COVID-19 pandemic resulted in a qualitative indication of impairment related to our store long-lived assets. In fiscal 2020, the Company recorded impairment charges of operating lease assets and other long-lived assets for our underperforming retail stores of \$9.0 million. The impairment charges were recorded in Selling, general and administrative expenses on the Company's consolidated statements of operations.

#### *DEFERRED DEBT ISSUANCE COSTS*

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

#### *FAIR VALUE MEASUREMENTS*

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

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



## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

#### REVENUE RECOGNITION

At the beginning of fiscal 2018, the Company adopted the provisions of ASC 606 using the full retrospective adoption method.

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

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

#### *Performance Obligations*

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

#### *When Performance Obligations Are Satisfied*

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

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

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

#### *Significant Payment Terms*

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

#### *Returns and Refunds*

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

#### *Significant Judgments*

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

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

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

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

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *Policy Elections*

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

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

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 \$0.5 million for fiscal 2020, \$3.1 million for fiscal 2019, and \$3.0 million for fiscal 2018 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.

##### *COSTS OF GOODS SOLD AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES*

In addition to the cost of product, cost of goods sold include changes to our inventory reserve and expenses related to the merchandising, design, and procurement of product, including inbound freight costs, purchasing and receiving costs, and inspection costs. Also included in costs of goods sold are the costs of shipping eCommerce product to end consumers. For omni-channel transactions, costs of goods sold include the costs of shipping product to end customers or to retail stores.

Retail store occupancy costs, distribution expenses, and generally all expenses other than interest and income taxes are included in Selling, general, and administrative "SG&A". Distribution expenses that are included in SG&A primarily consist of payments to third-party shippers and handling costs to process product through our distribution facilities, including eCommerce fulfillment costs, and delivery to our wholesale customers and to our retail stores. Distribution expenses included in SG&A totaled \$190.7 million, \$191.1 million, and \$188.9 million for fiscal years 2020, 2019, and 2018, respectively.

##### *GROSS PROFIT*

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *INCOME FROM ROYALTIES AND LICENSE FEES*

We license our *Carter's*, *OshKosh*, *Child of Mine*, *Just One You*, *Simple Joys*, and *Carter's little baby basics* brands to partners to expand our product offerings to include bedding, cribs, diaper bags, footwear, gift sets, hair accessories, jewelry, outerwear, paper goods, socks, shoes, swimwear, and toys. These royalties are recorded as earned, based upon the sales of licensed products by licensees and reported as royalty income 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 eCommerce site 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. During the requisite service period, the Company also recognizes a deferred income tax benefit for the expense recognized for U.S. GAAP. At time of subsequent vesting, exercise, forfeiture, or expiration of an award, the difference between the Company's actual income tax deduction, if any, and the previously accrued income tax benefit is recognized in income tax expense/benefit during the current period.

##### *Stock Options*

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

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Forfeitures* — The Company estimates forfeitures of stock-based awards based on historical experience and expected future activity.

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

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

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

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

The Company accounts for its performance-based restricted stock awards based on the quoted closing price of the Company's common stock on the date of grant and records stock-based compensation expense over the vesting term of the awards based on the probability that the performance criteria will be achieved, net of estimated forfeitures. The Company reassesses the probability of vesting at each reporting period and adjusts stock-based compensation expense based on its probability assessment.

#### *Stock Awards*

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

#### *INCOME TAXES*

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

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *SUPPLEMENTAL CASH FLOW INFORMATION*

Interest paid in cash approximated \$55.1 million, \$36.5 million, and \$33.6 million for fiscal years 2020, 2019, and 2018, respectively. Income taxes paid in cash approximated \$54.7 million, \$67.6 million and \$55.9 million for fiscal years 2020, 2019, and 2018, respectively.

Additions to property, plant and equipment of approximately \$6.0 million, \$1.2 million, and \$1.9 million were excluded from capital expenditures on the Company's consolidated statements of cash flows for fiscal years 2020, 2019, and 2018, respectively, since these amounts were accrued and unpaid at the end of each respective fiscal year.

##### *EARNINGS PER SHARE*

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

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

##### *OPEN MARKET REPURCHASES OF COMMON STOCK*

Shares of the Company's common stock that are repurchased by the Company through open market transactions are retired. Through the end of fiscal 2020, all such open market repurchases have been at prices that exceeded the par value of the repurchased common stock, and the amounts of the purchase prices that exceeded par value were charged to additional paid-in capital or to retained earnings if the balance in additional paid-in capital was not sufficient.

##### *EMPLOYEE BENEFIT PLANS*

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

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *FACILITY CLOSURE AND SEVERANCE COSTS*

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

##### *SEASONALITY*

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

##### *RECENT ACCOUNTING PRONOUNCEMENTS*

Adopted in Fiscal 2020

##### *Credit Losses (ASU 2016-13)*

At the beginning of fiscal 2020, the Company adopted Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). This new guidance changed how entities account for credit impairment for trade and other receivables, as well as for certain financial assets and other instruments. ASU 2016-13 replaced the previous "incurred loss" model with an "expected loss" model, that requires an entity to recognize a loss (or allowance) upon initial recognition of the asset that reflects all future events that will lead to a loss being realized, regardless of whether it is probable that the future event will occur. The Company estimates current expected credit losses based on collection history and management's assessment of the current economic trends, business environment, customers' financial condition, accounts receivable aging, and customer disputes that may impact the level of future credit losses. The effect of the adoption of ASU 2016-13 was not material to the Company's consolidated financial statements.

##### *Goodwill Impairment Testing (ASU 2017-04)*

At the beginning of fiscal 2020, the Company adopted ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 eliminated the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. Any impairment charge will be limited to the amount of goodwill allocated to an impacted reporting unit. The effect of the adoption of ASU 2017-04 had no impact to the Company's consolidated financial statements. During the first quarter of fiscal 2020, the Company conducted an interim quantitative impairment assessment on the goodwill ascribed to the Other International reporting unit. As a result of this assessment and based on the application of ASU 2017-04, a goodwill impairment charge of \$17.7 million was recorded to our Other International reporting unit. See Note 6, *Goodwill and Other Intangible Assets*, for further details on the impairment charge and valuation methodology.

**CARTER’S, INC.**

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

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Simplifying the Accounting for Income Taxes (ASU 2019-12)*

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Amendments include removal of certain exceptions to the general principles of Topic 740, “Income Taxes,” and simplification in several other areas. ASU 2019-12 is effective for annual reporting periods beginning after December 15, 2020, and interim periods therein, with early adoption permitted. The Company elected to early adopt this guidance in the first quarter of fiscal 2020. The Company retrospectively adopted the provision related to the classification of taxes partially based on income and has determined that the adoption of this standard did not have a material impact on its prior period financial statements. The provisions related to intraperiod tax allocation and interim recognition of enactment of tax laws are being adopted on a prospective basis. The effect of the adoption of ASU 2019-12 was not material to the Company’s consolidated financial statements.

To Be Adopted After Fiscal 2020

*Reference Rate Reform (ASU 2020-04)*

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

**NOTE 3—REVENUE RECOGNITION**

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

*DISAGGREGATION OF REVENUE*

The Company sells its products directly to consumers (“direct-to-consumer”) and to other retail companies and partners that subsequently sell the products directly to their own customers. The Company also earns royalties from its licensees. Disaggregated revenues from these sources for fiscal years 2020, 2019, and 2018 were as follows:

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



**CARTER'S, INC.**

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

**NOTE 3—REVENUE RECOGNITION (Continued)**

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

	<u>Fiscal year ended December 29, 2018 (52 weeks)</u>			
(dollars in thousands)	<u>U.S. Retail</u>	<u>U.S. Wholesale</u>	<u>International</u>	<u>Total</u>
Wholesale channel .....	\$ —	\$1,180,687	\$163,637	\$1,344,324
Direct-to-consumer .....	1,851,193	—	266,752	2,117,945
	<u>\$1,851,193</u>	<u>\$1,180,687</u>	<u>\$430,389</u>	<u>\$3,462,269</u>
Royalty income .....	\$ 12,877	\$ 22,511	\$ 3,542	\$ 38,930

*ACCOUNTS RECEIVABLE FROM CUSTOMERS AND LICENSEES*

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

(dollars in thousands)	<u>January 2, 2021</u>	<u>December 28, 2019</u>
Trade receivables from wholesale customers, net <sup>(1)</sup> .....	\$180,830	\$239,059
Royalties receivable .....	5,733	6,982
Tenant allowances and other receivables .....	12,315	16,247
Total gross receivables .....	<u>\$198,878</u>	<u>\$262,288</u>
Less: Wholesale accounts receivable reserves <sup>(1)(2)</sup> .....	<u>(12,366)</u>	<u>(11,283)</u>
Accounts receivable, net .....	<u>\$186,512</u>	<u>\$251,005</u>

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

(2) Includes allowance for credit losses of \$5.9 million and \$6.4 million for the periods ended January 2, 2021 and December 28, 2019, respectively.

**CARTER'S, INC.**

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

**NOTE 3—REVENUE RECOGNITION (Continued)**

Information regarding Wholesale accounts receivable reserves is as follows:

(dollars in thousands)	Wholesale accounts receivable reserves
<b>Balance at December 30, 2017</b> .....	\$ 13,736
Additional provisions .....	30,280
Charges to reserve .....	(32,150)
<b>Balance at December 29, 2018</b> .....	\$ 11,866
Additional provisions .....	9,047
Charges to reserve .....	(7,939)
Reclassification to Trade receivables <sup>(1)</sup> .....	\$ (1,691)
<b>Balance at December 28, 2019</b> .....	\$ 11,283
Additional provisions .....	9,625
Charges to reserve <sup>(2)</sup> .....	(8,542)
<b>Balance at January 2, 2021</b> .....	<u>\$ 12,366</u>

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

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

*CONTRACT ASSETS AND LIABILITIES*

The Company's contract assets are not material.

*Contract Liabilities*

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

(dollars in thousands)	January 2, 2021	December 28, 2019
Contract liabilities-current:		
Unredeemed gift cards .....	\$18,300	\$17,563
Unredeemed customer loyalty rewards .....	5,241	5,615
Carter's credit card—upfront bonus <sup>(1)</sup> .....	714	714
Total contract liabilities—current <sup>(2)</sup> .....	<u>\$24,255</u>	<u>\$23,892</u>
Contract liabilities—non-current	<u>\$ 2,857</u>	<u>\$ 3,571</u>
Total contract liabilities .....	<u>\$27,112</u>	<u>\$27,463</u>

(1) Carter's credit card—upfront bonus—the Company received an upfront signing bonus from a third-party financial institution, which will be recognized as revenue on a straight-line basis over the term of the agreement. This amount reflects the current portion of this bonus to be recognized as revenue in 2021.

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

**CARTER'S, INC.**

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

**NOTE 3—REVENUE RECOGNITION (Continued)**

*Composition of Contract Liabilities*

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

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

**NOTE 4—LEASES**

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

As of January 2, 2021, the Company's finance leases were not material to the consolidated balance sheets, consolidated statements of operations or statement of cash flows.

As a result of the COVID-19 pandemic, during the second quarter of fiscal 2020 the Company suspended rent payments under the leases for our temporarily closed stores in North America. The Company resumed making the required rent payments under these leases in the third quarter of fiscal 2020.

Additionally, as a result of the effects COVID-19 pandemic, the Company renegotiated approximately 725 lease agreements with landlords. Lease modifications resulting from COVID-19 related rent concessions increased the Company's operating lease liabilities by \$23.7 million during fiscal 2020, primarily due to addition of the deferred lease payments to the updated lease terms and due to a decrease in the discount rates used for the remeasurement of the lease liabilities. The Company continues to negotiate lease concessions with landlords.

In fiscal 2020, the Company recorded operating lease asset impairment charges totaling \$7.4 million related to underperforming stores primarily as a result of decreased net revenues and cash flow projections resulting from the COVID-19 disruption and other facility and office closures. See Note 15, *Fair Value Measurements*, for further details on the fair value calculations for operating lease assets for the retail stores.

The following components of lease expense are included in Selling, general and administrative expenses on the Company's consolidated statements of operations for fiscal 2020:

	<b>For the fiscal year ended</b>	
<b>(dollars in thousands)</b>	<b>January 2, 2021</b>	<b>December 28, 2019</b>
Operating lease cost . . . . .	\$180,056	\$179,982
Variable lease cost (*) . . . . .	<u>71,971</u>	<u>63,043</u>
Net lease cost . . . . .	<u>\$252,027</u>	<u>\$243,025</u>

**CARTER'S, INC.**

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

**NOTE 4—LEASES (Continued)**

(\*) Includes operating lease impairment charges, and short-term leases, which are immaterial.

Supplemental balance sheet information related to leases was as follows:

	<b>January 2, 2021</b>	<b>December 28, 2019</b>
Weighted average remaining operating lease term (years) . . . . .	5.4	6.0
Weighted average discount rate for operating leases . . . . .	3.33%	4.35%

Cash paid for amounts included in the measurement of operating lease liabilities in fiscal 2020 and fiscal 2019 was \$161.7 million and \$193.5 million, respectively.

Non-cash transactions to recognize operating assets and liabilities for new leases in fiscal 2020 and fiscal 2019 were \$62.6 million and \$110.0 million, respectively.

As of January 2, 2021, the maturities of lease liabilities were as follows:

<b>(dollars in thousands)</b>	<b><u>Operating leases</u></b>
2021 . . . . .	\$206,814
2022 . . . . .	159,350
2023 . . . . .	130,646
2024 . . . . .	105,515
2025 . . . . .	77,134
After 2025 . . . . .	<u>129,195</u>
Total lease payments . . . . .	\$808,654
Less: Interest . . . . .	<u>(69,005)</u>
Present value of lease liabilities(*) . . . . .	<u><u>\$739,649</u></u>

(\*) As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date to determine the present value of lease payments. We used the incremental borrowing rate on December 30, 2018, for operating leases that commenced prior to that date.

As of January 2, 2021, the minimum rental commitments for additional operating lease contracts that have not yet commenced, primarily for retail stores, are \$10.9 million. These operating leases will commence between fiscal year 2021 and fiscal year 2023 with lease terms of 7 years to 11 years.

Rent expense under operating leases (including properties and computer and office equipment) was approximately \$165.6 million for the fiscal year ended December 29, 2018.

**CARTER'S, INC.**

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

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

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

(dollars in thousands)	<u>January 2, 2021</u>	<u>December 28, 2019</u>
Land, building, and leasehold improvements .....	\$ 358,121	\$ 363,428
Fixtures, equipment, and computer hardware .....	308,260	297,930
Computer software .....	159,558	161,104
Marketing fixtures .....	9,819	11,160
Construction in progress .....	<u>10,567</u>	<u>10,394</u>
	846,325	844,016
Accumulated depreciation and amortization .....	<u>(583,980)</u>	<u>(523,848)</u>
Total .....	<u>\$ 262,345</u>	<u>\$ 320,168</u>

Depreciation and amortization expense related to property, plant, and equipment was approximately \$90.3 million, \$92.2 million, and \$85.9 million for fiscal years 2020, 2019, and 2018, respectively.

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

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

(dollars in thousands)	<u>U.S. Retail</u>	<u>U.S. Wholesale</u>	<u>International</u>	<u>Total</u>
<b>Balance at December 29, 2018</b> .....	\$83,934	\$74,454	\$ 68,713	\$227,101
Foreign currency impact .....	<u>—</u>	<u>—</u>	<u>1,925</u>	<u>1,925</u>
<b>Balance at December 28, 2019</b> .....	<u>\$83,934</u>	<u>\$74,454</u>	<u>\$ 70,638</u>	<u>\$229,026</u>
Goodwill impairment(1) .....	<u>—</u>	<u>—</u>	<u>(17,742)</u>	<u>(17,742)</u>
Foreign currency impact .....	<u>—</u>	<u>—</u>	<u>492</u>	<u>492</u>
<b>Balance at January 2, 2021(2)</b> .....	<u>\$83,934</u>	<u>\$74,454</u>	<u>\$ 53,388</u>	<u>\$211,776</u>

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

**CARTER’S, INC.**

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

**NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

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

(dollars in thousands)	Weighted- average useful life	January 2, 2021			December 28, 2019		
		Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
<i>Carter’s</i> tradename . . . . .	Indefinite	\$220,233	\$ —	\$220,233	\$220,233	\$ —	\$220,233
<i>OshKosh</i> tradename <sup>(1)</sup> . . . . .	Indefinite	70,000	—	70,000	85,500	—	85,500
<i>Skip Hop</i> tradename <sup>(2)(3)</sup> . . . . .	Indefinite	15,000	—	15,000	26,000	—	26,000
Finite-life tradenames . . . . .	5 - 20 years	3,911	1,251	2,660	3,911	1,002	2,909
Total tradenames, net . . . . .		<u>\$309,144</u>	<u>\$ 1,251</u>	<u>\$307,893</u>	<u>\$335,644</u>	<u>\$1,002</u>	<u>\$334,642</u>
Skip Hop customer relationships . . . . .	15 years	\$ 47,300	\$11,834	\$ 35,466	\$ 47,300	\$8,657	\$ 38,643
<i>Carter’s</i> Mexico customer relationships . . . . .	10 years	3,108	1,064	2,044	3,258	775	2,483
Total customer relationships, net . . . . .		<u>\$ 50,408</u>	<u>\$12,898</u>	<u>\$ 37,510</u>	<u>\$ 50,558</u>	<u>\$9,432</u>	<u>\$ 41,126</u>

- (1) In fiscal 2020, a charge of \$13.6 million, \$1.6 million, and \$0.3 million was recorded on our indefinite-lived *OshKosh* tradename asset in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *OshKosh* tradename asset.
- (2) In fiscal 2020, a charge of \$6.8 million, \$3.7 million, and \$0.5 million was recorded on our indefinite-lived *Skip Hop* tradename asset in the U.S. Wholesale, International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset.
- (3) In fiscal 2019, a charge of \$19.1 million, \$10.5 million, and \$1.2 million was recorded on our indefinite-lived *Skip Hop* tradename asset in the U.S. Wholesale, International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset.

The carrying values of goodwill and indefinite-lived tradename assets are subject to annual impairment reviews as of the last day of each fiscal year. Between annual assessments, impairment reviews may also be triggered by any significant events or changes in circumstances affecting our business. Due to the decrease in the Company’s market capitalization, lower than expected actual sales, and lower projected sales and profitability, primarily due to the impacts from the outbreak of COVID-19, the Company concluded that impairment indicators existed for the first quarter of fiscal 2020. As a result, during the first quarter of fiscal 2020, the Company conducted interim quantitative impairment assessments of 1) the goodwill ascribed to the Other International reporting unit recorded in connection with the allocation of goodwill to the newly created International segment as a result of the acquisition of Bonnie Togs in 2011 and 2) on the value of the Company’s indefinite-lived *OshKosh* and *Skip Hop* tradename assets that was recorded in connection with the acquisition of *OshKosh B’Gosh* Inc. in July 2005 and *Skip Hop Holdings, Inc.* in February 2017, respectively.

The goodwill impairment assessment for the Other International reporting unit was performed in accordance with ASC 350, “*Intangibles—Goodwill and Other*” (“ASC 350”) and compares the carrying value of the Other International reporting unit to its fair value. Consistent with prior practice, the fair value of the Other International reporting unit was determined using discounted cash flows (“income approach”) and relevant data

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

from guideline public companies (“market approach”). As a result of this assessment, a goodwill impairment charge of \$17.7 million was recorded to our Other International reporting unit in the International segment during the first quarter of fiscal 2020. The goodwill impairment charge recorded on our Other International reporting unit included charges of \$9.4 million, \$5.2 million, and \$3.1 million to Skip Hop, Carter’s, and Carter’s Mexico goodwill, respectively. The carrying value of the Company’s goodwill for the Other International reporting unit as of January 2, 2021 was \$11.8 million.

The *OshKosh* and *Skip Hop* indefinite-lived tradename asset assessments were performed in accordance with ASC 350 and were determined using a discounted cash flow analysis which examined the hypothetical cost savings that accrue as a result of not having to license the tradename from another owner. Based on these assessments, charges of \$15.5 million and \$11.0 million were recorded during the first quarter of fiscal 2020 on our indefinite-lived *OshKosh* and *Skip Hop* tradename assets, respectively. The charge recorded on our indefinite-lived *OshKosh* tradename asset included charges of \$13.6 million, \$1.6 million, and \$0.3 million in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *OshKosh* tradename asset. The charge recorded on our indefinite-lived *Skip Hop* tradename asset included charges of \$6.8 million, \$3.7 million, and \$0.5 million in the U.S. Wholesale, International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset. The carrying values of the Company’s indefinite-lived *OshKosh* and *Skip Hop* tradename assets as of January 2, 2021 were \$70.0 million and \$15.0 million, respectively.

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

Based upon our most recent annual assessment, performed as of January 2, 2021, there were no further impairments in the values of goodwill or indefinite-lived or definite-lived intangible assets. Although the Company determined that no further impairment exists for the Company’s goodwill or indefinite-lived or definite-lived intangible assets, these assets could be at risk for impairment should global economic conditions continue to deteriorate as a result of COVID-19.

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

Amortization expense for intangible assets subject to amortization was approximately \$3.7 million for each of fiscal years 2020, 2019, and 2018.

**CARTER'S, INC.**

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

**NOTE 6—GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)**

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

(dollars in thousands)	<u>Amortization expense</u>
2021 .....	\$3,737
2022 .....	\$3,737
2023 .....	\$3,695
2024 .....	\$3,665
2025 .....	\$3,665

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

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

(dollars in thousands)	<u>Pension liability adjustments</u>	<u>Post-retirement liability adjustments</u>	<u>Cumulative translation adjustments</u>	<u>Accumulated other comprehensive (loss) income</u>
<b>Balance at December 30, 2017</b> .....	\$ (9,281)	\$ 1,473	\$ (21,285)	\$ (29,093)
Fiscal year 2018 change .....	(281)	214	(11,679)	(11,746)
<b>Balance at December 29, 2018</b> .....	(9,562)	1,687	(32,964)	(40,839)
Reclassification of tax effects(*) .....	(1,880)	380	—	(1,500)
Fiscal year 2019 change .....	746	(483)	6,442	6,705
<b>Balance at December 28, 2019</b> .....	(10,696)	1,584	(26,522)	(35,634)
Fiscal year 2020 change .....	(2,197)	(144)	5,215	2,874
<b>Balance at January 2, 2021</b> .....	\$ <u>(12,893)</u>	\$ <u>1,440</u>	\$ <u>(21,307)</u>	\$ <u>(32,760)</u>

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

As of January 2, 2021 and December 28, 2019, the cumulative tax effect on the pension liability adjustments were \$4.0 million and \$3.3 million, respectively. As of January 2, 2021 and December 28, 2019, the cumulative tax effect on the post-retirement liability adjustments were approximately \$0.5 million and \$0.5 million, respectively.

For the fiscal years ended January 2, 2021 and December 28, 2019, amounts reclassified from accumulated other comprehensive loss to the consolidated statements of operations consisted of amortization of actuarial gains and losses related to the Company's defined benefit retirement plans. Such amortization amounts are included in the net periodic cost or benefit recognized for these plans during the respective fiscal year. For additional information, see Note 11, *Employee Benefit Plans*, to the consolidated financial statements.



**CARTER'S, INC.**

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

**NOTE 8—LONG-TERM DEBT**

Long-term debt consisted of the following:

(dollars in thousands)	January 2, 2021	December 28, 2019
5.500% Senior Notes due 2025 .....	\$ 500,000	\$ —
5.625% Senior Notes due 2027 .....	500,000	500,000
Total senior notes .....	\$1,000,000	\$500,000
Less: unamortized issuance-related costs for senior notes .....	(10,470)	(5,328)
Senior notes, net .....	\$ 989,530	\$494,672
Secured revolving credit facility .....	—	100,000
Total long-term debt, net .....	\$ 989,530	\$594,672

*SECURED REVOLVING CREDIT FACILITY*

To improve the Company's cash position in light of the uncertainty and disruption related to COVID-19, the Company drew \$639.0 million under its secured revolving credit facility in the month of March 2020, and in May 2020 repaid \$500 million of the outstanding borrowings with the net proceeds of a new \$500 million senior notes offering, as discussed below, and cash on hand. During the third quarter of fiscal 2020, the Company repaid the remainder of its outstanding borrowings under its secured revolving credit facility with cash on hand. As of January 2, 2021, the Company had no outstanding borrowings under its secured revolving credit facility, exclusive of \$5.0 million of outstanding letters of credit. As of December 28, 2019, the Company had \$100.0 million in outstanding borrowings under its secured revolving credit facility, exclusive of \$5.0 million of outstanding letters of credit. As of January 2, 2021 and December 28, 2019, there was approximately \$745.0 million and \$645.0 million available for future borrowing, respectively. All outstanding borrowings under the Company's secured revolving credit facility are classified as non-current liabilities on the Company's consolidated balance sheets due to contractual repayment terms under the credit facility.

*TERMS OF THE SECURED REVOLVING CREDIT FACILITY*

On August 25, 2017, the Company's wholly owned subsidiary, The William Carter Company ("TWCC") and the syndicate of lenders entered into a fourth amended and restated secured revolving credit agreement, which provided for, among other things:

- An extension of the term of the facility to August 25, 2022.
- An increase in the aggregate credit line to \$750 million which includes a \$650 million U.S. dollar facility and a \$100 million multicurrency facility denominated in U.S. dollars, Canadian dollars, Euros, Pounds Sterling, or other currencies agreed to by the applicable lenders. The \$650 million U.S. dollar facility is inclusive of a \$100 million sub-limit for letters of credit and a swing line sub-limit of \$70 million. The \$100 million multicurrency facility is inclusive of a \$40 million sub-limit for letters of credit and a swing line sub-limit of \$15 million. In addition, the amendment provided for incremental borrowing facilities up to \$425 million, which are comprised of an incremental \$350 million U.S. dollar revolving credit facility and an incremental \$75 million multicurrency revolving credit facility. The incremental U.S. dollar revolving credit facility can increase to an unlimited borrowing amount so long as the consolidated first lien leverage ratio (as defined in the secured revolving credit facility) does not exceed 2.25:1.00.

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 8—LONG-TERM DEBT (Continued)

- 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.
- 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")) and 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)) covenants, which were amended by Amendment No.2 (as defined and described below).
- 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.

Under the fourth amended and restated secured revolving credit facility, TWCC and its domestic subsidiaries have granted to the collateral agent, for the benefit of the lenders, valid and perfected first priority security interests in substantially all of their present and future assets, excluding certain customary exceptions, and guarantee the obligations of the borrowers. In addition, The Genuine Canadian Corp., as Canadian borrower, and Carter's Holdings B.V., as Dutch borrower, have each guaranteed the obligations of the other.

On September 21, 2018, TWCC and a syndicate of lenders entered into Amendment No. 1 to its fourth amended and restated credit agreement that, among other things, extended the term of the facility from August 25, 2022 to September 21, 2023.

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

In particular, Amendment No. 2 provided that the Company may issue additional debt securities in an aggregate principal amount of up to \$500 million on or prior to the last day of fiscal 2020 (the "Post-Amendment Debt Issuance"), and must use half of the net cash proceeds from the Post-Amendment Debt Issuance to repay outstanding borrowings under the Secured Revolving Credit Facility (or, if such outstanding borrowings do not exceed an amount equal to half of such net cash proceeds, the amount necessary to repay the borrowings in full). The aggregate gross principal amount outstanding of any Post-Amendment Debt issuance will not count as Consolidated Indebtedness for purposes of leverage determinations under the Secured Revolving Credit Agreement to the extent that the Company's and certain other subsidiaries' on-hand cash and cash equivalents is at least equal to the aggregate principal gross amount outstanding of that issuance. On May 11, 2020, TWCC issued \$500 million principal amount of senior notes at par, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025, as more fully described below.

Additionally, Amendment No.2 provided that:

- The Lease Adjusted Leverage Ratio and the Consolidated Fixed Charge Coverage Ratio covenants were waived during the period from and including the second fiscal quarter of 2020 through and including the fourth fiscal quarter of 2020, and thereafter,

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 8—LONG-TERM DEBT (Continued)

- the Lease Adjusted Leverage Ratio was set at 5.50:1.00 for the first fiscal quarter of 2021 and, during the remainder of 2021, gradually steps down to 4.00:1.00 for the fourth fiscal quarter of 2021 and, subject to the consummation of a Material Acquisition (as defined in Amendment No.2), thereafter.
- the Consolidated Fixed Charge Coverage Ratio was set at 1.25:1.00 for the first fiscal quarter of 2021 and, during the remainder of 2021 and, gradually steps back up to 1.85:1.00 for the fourth fiscal quarter of 2021 and, subject to the consummation of a Material Acquisition, thereafter.
- During the period from May 4, 2020 through the date the Company delivers its financial statements and associated certificates relating to the third fiscal quarter of 2021 (the “Restricted Period”), the Company must maintain a minimum liquidity (defined as cash-on-hand plus availability under its secured revolving credit facility) on the last day of each fiscal month of at least \$700 million.
- During the Restricted Period, the Company must demonstrate a business need for revolving borrowings if it maintains more than \$700 million of cash on-hand at the time of the draw, subject to certain exceptions.
- During Restricted Period, the availability of certain exceptions to the lien, investment, indebtedness, and restricted payment negative covenants (including those related to dividend payments and share repurchases) are limited or removed, and any incremental credit extensions and the possibility of collateral and covenant release periods are suspended.
- During the Restricted Period, interest rate margins applicable to the secured revolving credit facility were initially 2.125% for LIBOR rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 1.125% to 2.375%) and 1.125% for base rate loans (which may be adjusted based on a leverage-based pricing grid ranging from 0.125% to 1.375%). Amendment No. 2 also provided for a commitment fee initially equal to 0.35% per annum, and ranging thereafter from 0.15% per annum to 0.40% per annum based upon a leverage-based pricing grid, which is payable quarterly in arrears with respect to the average daily unused portion of the revolving loan commitments.

Approximately \$1.2 million, including both bank fees and other third party expenses, has been capitalized in connection with Amendment No. 2 and is being amortized over the remaining term of the secured revolving credit facility.

As of January 2, 2021, the interest rate margins applicable to the amended revolving credit facility were 1.625% for LIBOR (London Interbank Offered Rate) rate loans and 0.625% for base rate loans. There were no U.S. dollar borrowings or foreign currency borrowings outstanding on January 2, 2021. As of December 28, 2019, U.S. dollar borrowings outstanding under the secured revolving credit facility accrued interest at a LIBOR rate plus the applicable base rate, which resulted in a weighted-average borrowing rate of 3.42%. There were no Canadian borrowings outstanding on January 2, 2021 or December 28, 2019.

As of January 2, 2021, the Company was in compliance with its financial and other covenants under the secured revolving credit facility.

#### Senior Notes

##### *2020 Issuance of Senior Notes*

On May 11, 2020, TWCC issued \$500 million principal amount of senior notes at par, bearing interest at a rate of 5.500% per annum, and maturing on May 15, 2025, all of which were outstanding as of January 2, 2021. TWCC

**CARTER'S, INC.**

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

**NOTE 8—LONG-TERM DEBT (Continued)**

received net proceeds from the offering of the senior notes of approximately \$494.5 million, after deducting underwriting fees, which TWCC used to repay borrowings outstanding under the Company's secured revolving credit facility. Approximately \$6.5 million, including both bank fees and other third party expenses, has been capitalized in connection with the issuance and is being amortized over the term of the senior notes.

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

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

<u>Year</u>	<u>Percentage</u>
2022 .....	102.75%
2023 .....	101.38%
2024 and thereafter .....	100.00%

***2019 Redemption and Issuance of Senior Notes***

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

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

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

<u>Year</u>	<u>Percentage</u>
2022 .....	102.81%
2023 .....	101.41%
2024 and thereafter .....	100.00%

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

CARTER'S, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8—LONG-TERM DEBT (Continued)

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

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

NOTE 9—COMMON STOCK

OPEN MARKET SHARE REPURCHASES

On both February 13, 2020 and February 22, 2018, the Company's Board of Directors authorized an additional \$500 million of share repurchases, for total authorizations, inclusive of authorizations prior to 2018, of up to \$1.96 billion.

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

	For the fiscal year ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Number of shares repurchased . . . . .	474,684	2,107,472	1,879,529
Aggregate cost of shares repurchased ( <i>dollars in thousands</i> ) . . . . .	\$ 45,255	\$ 196,910	\$ 193,028
Average price per share . . . . .	\$ 95.34	\$ 93.43	\$ 102.70

The total remaining capacity under outstanding repurchase authorizations as of January 2, 2021 was approximately \$650.4 million, based on settled repurchase transactions. The share repurchase authorizations have no expiration dates.

On March 26, 2020, the Company announced that, in connection with the COVID-19 pandemic, it suspended its common stock share repurchase program. While we may elect to resume purchases at any time, the timing and amount of any future repurchases will be determined by the Company based on its evaluation of market conditions, share price, other investment priorities, and other factors.

DIVIDENDS

In the first fiscal quarter of 2020, the Company declared and paid cash dividends of \$0.60 per share. On May 1, 2020, in connection with the COVID-19 pandemic, the Company suspended its quarterly cash dividend. As a result, the Company did not declare or pay cash dividends for the remainder of fiscal 2020. The Board of Directors will evaluate future dividend declarations based on a number of factors, including restrictions under the Company's revolving credit facility, business conditions, the Company's financial performance, and other considerations. In fiscal 2019, the Company declared and paid cash dividends of \$0.50 per share during all four quarters.

**CARTER'S, INC.**

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

**NOTE 9—COMMON STOCK (Continued)**

Provisions in the Company's secured revolving credit facility have the effect of restricting the Company's ability to pay cash dividends on, or make future repurchases of, its common stock through the date the Company delivers its financial statements and associated certificates relating to the third fiscal quarter of 2021, and could have the effect of restricting the Company's ability to do so thereafter, as further described in Note 8, *Long-Term Debt*, to the consolidated financial statements.

**NOTE 10—STOCK-BASED COMPENSATION**

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

At the Company's May 17, 2018 shareholders' meeting, the shareholders approved an amendment to the Plan to increase the maximum number of shares of stock available under the Plan by 3,000,000 shares from a cumulative total of 15,778,392 shares to 18,778,392 shares. As of January 2, 2021, there were 3,293,796 remaining shares available for grant under the Plan. The Plan makes a provision for the treatment of awards upon termination of service or in the case of a merger or similar corporate transaction. Participation in the Plan is limited to members of the Company's board of directors, executive officers and other key employees.

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

The Company recorded stock-based compensation cost as follows:

(dollars in thousands)	For the fiscal years ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Stock options .....	\$ 2,694	\$ 4,070	\$ 4,788
Restricted stock:			
Time-based awards .....	10,468	9,432	7,938
Performance-based awards .....	(1,927)	1,552	744
Stock awards .....	1,595	1,475	1,203
Total .....	\$12,830	\$16,529	\$14,673

The Company recognizes compensation cost ratably over the applicable performance periods based on the estimated probability of achievement of its performance targets at the end of each period. During fiscal 2020, the achievement of performance target estimates was revised resulting in a reversal of previously recognized stock-based compensation expense for outstanding performance-based awards.

**Stock Options**

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

**CARTER'S, INC.**

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

**NOTE 10—STOCK-BASED COMPENSATION (Continued)**

Changes in the Company's stock options for the fiscal year ended January 2, 2021 were as follows:

	Number of shares	Weighted- average exercise price	Weighted- average remaining contractual terms (years)	Aggregate intrinsic value (in thousands)
<b>Outstanding, December 28, 2019</b> . . . . .	1,128,607	\$ 78.78		
Granted (*) . . . . .	—	\$ —		
Exercised . . . . .	(193,645)	\$ 46.52		
Forfeited . . . . .	(31,758)	\$101.56		
Expired . . . . .	(42,493)	\$ 96.96		
<b>Outstanding, January 2, 2021</b> . . . . .	<u>860,711</u>	\$ 84.31	4.83	\$13,164
<b>Vested and expected to vest, January 2, 2021</b> . . . . .	853,722	\$ 84.10	4.81	\$13,154
<b>Exercisable, January 2, 2021</b> . . . . .	709,690	\$ 79.74	4.41	\$12,584

(\*) The Company did not grant any stock options in fiscal 2020.

The intrinsic value of stock options exercised during the fiscal years ended January 2, 2021, December 28, 2019, and December 29, 2018 was approximately \$8.2 million, \$13.3 million, and \$16.6 million, respectively. At January 2, 2021, there was approximately \$1.6 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 1.1 years.

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

	For the fiscal years ended		
	January 2, 2021 <sup>(*)</sup>	December 28, 2019 <sup>(*)</sup>	December 29, 2018
Expected volatility . . . . .	—%	—%	22.93%
Risk-free interest rate . . . . .	—%	—%	2.75%
Expected term (years) . . . . .	0	0	6.0
Dividend yield . . . . .	—%	—%	1.47%
Weighted average fair value of options granted . . . . .	\$—	\$—	\$27.36

(\*) There were no stock options granted in fiscal 2020 and 2019.

**RESTRICTED STOCK AWARDS**

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

Form 10-K

**CARTER'S, INC.**

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

**NOTE 10—STOCK-BASED COMPENSATION (Continued)**

The following table summarizes activity related to all restricted stock awards during the fiscal year ended January 2, 2021:

	<b>Restricted stock awards</b>	<b>Weighted- average grant-date fair value</b>
<b>Outstanding, December 28, 2019</b> .....	458,500	\$ 94.58
Granted .....	226,970	\$105.48
Vested .....	(140,345)	\$ 89.80
Forfeited .....	(82,588)	\$ 91.83
<b>Outstanding, January 2, 2020</b> .....	<b>462,537</b>	<b>\$101.87</b>

During fiscal 2019, a total of 131,924 shares of restricted stock vested with a weighted-average fair value of \$93.03 per share. During fiscal 2018, a total of 151,321 shares of restricted stock vested with a weighted-average fair value of \$84.56 per share.

At January 2, 2021, there was approximately \$19.8 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 2.6 years.

*Time-based Restricted Stock Awards*

Time-based restricted stock awards vest in equal annual installments or cliff vest after a three-year or four-year period. During fiscal years 2020, 2019, and 2018, a total of 125,209 shares, 102,492 shares, and 100,625 shares, respectively, of time-based restricted stock vested with a weighted-average fair value of \$90.52 per share, \$93.70 per share, and \$85.64 per share, respectively. At January 2, 2021, there was approximately \$19.8 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 2.6 years.

*Performance-based Restricted Stock Awards*

<b>Fiscal year</b>	<b>Number of shares granted</b>	<b>Weighted-average fair value per share</b>
2018 .....	45,625	\$120.25
2019 .....	60,700	\$ 88.87
2020 .....	58,320	\$108.76

Performance-based restricted stock awards cliff vest after a three-year period, subject to the achievement of the performance target. During the fiscal year ended January 2, 2021, a total of 15,136 performance shares vested with a weighted-average fair value of \$83.84 per share. As of January 2, 2021, a total of 153,744 performance shares were unvested with a weighted-average fair value of \$104.16 per share. Vesting of these 153,744 performance shares is based on the performance targets for the shares granted in fiscal 2020, 2019, and 2018. As of January 2, 2021, there was no unrecognized compensation cost related to the unvested performance-based restricted stock awards based on the current estimates of the number of awards that will vest.



**CARTER'S, INC.**

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

**NOTE 10—STOCK-BASED COMPENSATION (Continued)**

*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 2020, 2019, and 2018, such awards were as follows:

<u>Fiscal year</u>	<u>Number of shares issued</u>	<u>Fair value per share</u>	<u>Aggregate value (in thousands)</u>
2018 .....	10,971	\$109.67	\$1,203
2019 .....	16,097	\$ 91.63	\$1,475
2020 .....	21,362	\$ 74.67	\$1,595

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

**NOTE 11 – EMPLOYEE BENEFIT PLANS**

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

*OSHKOSH B'GOSH PENSION PLAN*

*Funded Status*

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

(dollars in thousands)	<u>For the fiscal year ended</u>	
	<u>January 2, 2021</u>	<u>December 28, 2019</u>
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of year .....	\$ 68,331	\$ 62,297
Interest cost .....	2,171	2,432
Actuarial loss .....	6,666	6,039
Benefits paid .....	(3,040)	(2,437)
Projected benefit obligation at end of year .....	<u>\$ 74,128</u>	<u>\$ 68,331</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year .....	\$ 61,961	\$ 55,564
Actual return on plan assets .....	6,496	8,834
Benefits paid .....	(3,040)	(2,437)
Fair value of plan assets at end of year .....	<u>\$ 65,417</u>	<u>\$ 61,961</u>
<b>Unfunded status</b> .....	<u>\$ 8,711</u>	<u>\$ 6,370</u>

The accumulated benefit obligation is equal to the projected benefit obligation as of January 2, 2021 and December 28, 2019 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

**CARTER'S, INC.**

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

**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

OshKosh B'Gosh pension plan during fiscal 2021 as the plan's funding exceeds the minimum funding requirements. The actuarial loss incurred in both fiscal 2020 and fiscal 2019 was primarily attributable to lower discount rates in each year.

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

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

(dollars in thousands)	For the fiscal year ended		
	January 2, 2021	December 28, 2019	December 29, 2018
<b>Recognized in the statement of operations:</b>			
Interest cost .....	\$ 2,171	\$ 2,432	\$ 2,287
Expected return on plan assets .....	(3,217)	(2,613)	(2,934)
Amortization of net loss (*) .....	510	795	709
Net periodic pension (benefit) cost .....	\$ (536)	\$ 614	\$ 62
<b>Changes recognized in other comprehensive income:</b>			
Net loss (gain) arising during the fiscal year .....	\$ 3,387	\$ (182)	\$ 1,070
Amortization of net loss (*) .....	(510)	(795)	(709)
Total changes recognized in other comprehensive income .....	\$ 2,877	\$ (977)	\$ 361
<b>Total net periodic cost and changes recognized in other comprehensive income .....</b>	<b>\$ 2,341</b>	<b>\$ (363)</b>	<b>\$ 423</b>

(\*) Represents pre-tax amounts reclassified from accumulated other comprehensive loss. For fiscal 2021, approximately \$0.4 million is expected to be reclassified from accumulated other comprehensive loss to a component of net periodic pension cost.

*Assumptions*

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

<u>Benefit obligation</u>	<u>2020</u>	<u>2019</u>	
Discount rate .....	2.50%	3.25%	
<u>Net periodic pension cost</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Discount rate .....	3.25%	4.00%	3.50%
Expected long-term rate of return on assets .....	6.00%	5.50%	6.25%

The discount rates used at January 2, 2021, December 28, 2019, and December 29, 2018 were determined with consideration given to the Citigroup Pension Discount and Liability Index and the Barclays 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.

**CARTER'S, INC.**

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

**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

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 \$2.5 million.

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

<i>(dollars in thousands)</i>	
2021 .....	\$ 2,780
2022 .....	\$ 2,860
2023 .....	\$ 2,970
2024 .....	\$ 3,160
2025 .....	\$ 3,370
2026-2030 .....	\$18,710

**PLAN ASSETS**

The Company's investment strategy is to invest in a well-diversified portfolio consisting of mutual funds or group annuity contracts that minimize concentration of risks by utilizing a variety of asset types, fund strategies, and fund managers. The target allocation for plan assets is 45% equity securities, 50% bond funds, and 5% real estate investments. The plan expects to gradually reduce its equity exposure.

The Company's investment policy anticipates a rate of return sufficient to fund pension plan benefits while minimizing the risk to the Company of additional funding. Based on actual returns over a long-term basis, the Company believes that a 6.00% 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 a small exposure to international equities. Fixed income securities include funds holding corporate bonds of companies from diverse industries, and U.S. Treasuries. Real estate funds include investments in actively managed mutual funds that invest in real estate.

The fair value of the Company's pension plan assets at January 2, 2021 and December 28, 2019, by asset category, were as follows:

<i>(dollars in thousands)</i> <u>Asset category</u>	<u>January 2, 2021</u>			<u>December 28, 2019</u>		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Cash and cash equivalents .....	\$ 644	\$ 644	\$ —	\$ 606	\$ 606	\$ —
<i>Equity securities:</i>						
U.S. Large-Cap blend <sup>(1)</sup> .....	9,006	9,006	—	8,673	8,673	—
U.S. Large-Cap growth .....	4,105	4,105	—	3,905	3,905	—
U.S. Mid-Cap growth .....	3,913	3,913	—	3,751	3,751	—
U.S. Small-Cap blend .....	2,608	2,608	—	2,511	2,511	—
International blend .....	9,882	9,882	—	9,408	9,408	—
<i>Fixed income securities:</i>						
Corporate bonds <sup>(2)</sup> .....	31,995	31,751	244	30,051	29,779	272
Real estate <sup>(3)</sup> .....	3,264	3,264	—	3,056	3,056	—
	<u>\$65,417</u>	<u>\$65,173</u>	<u>\$244</u>	<u>\$61,961</u>	<u>\$61,689</u>	<u>\$272</u>

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

**CARTER'S, INC.**

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

**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

- (2) This category invests in both U.S. Treasuries and mid-term corporate debt from U.S. issuers from diverse industries.
- (3) This category represents an investment in a mutual fund that invests primarily in real estate securities, including common stocks, preferred stock and other equity securities issued by real estate companies.

*POST-RETIREMENT LIFE AND MEDICAL PLAN*

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

*ACCUMULATED POST-RETIREMENT BENEFIT OBLIGATION*

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

(dollars in thousands)	For the fiscal years ended	
	January 2, 2021	December 28, 2019
APBO at beginning of fiscal year .....	\$ 3,311	\$ 3,228
Service cost .....	25	21
Interest cost .....	94	123
Actuarial (gain) loss .....	(162)	238
Plan participants' contribution .....	9	—
Benefits paid .....	(279)	(299)
APBO at end of fiscal year .....	\$ 2,998	\$ 3,311

Approximately \$2.7 million and \$3.0 million of the APBO at the end of fiscal 2020 and 2019, respectively, were classified as other long term liabilities in the Company's consolidated balance sheets.

**CARTER'S, INC.**

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

**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

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

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

(dollars in thousands)	For the fiscal year ended		
	January 2, 2021	December 28, 2019	December 29, 2018
<b>Recognized in the statement of operations:</b>			
Service cost .....	\$ 25	\$ 21	\$ 32
Interest cost .....	94	123	123
Amortization of net gain (*) .....	(345)	(396)	(289)
Net periodic post-retirement (benefit) cost .....	\$ (226)	\$ (252)	\$ (134)
<b>Changes recognized in other comprehensive income:</b>			
Net (gain) loss arising during the fiscal year .....	\$ (162)	\$ 238	\$ (573)
Amortization of net gain (*) .....	345	396	289
Total changes recognized in other comprehensive income .....	\$ 183	\$ 634	\$ (284)
<b>Total net periodic cost (benefit) and changes recognized in other comprehensive income .....</b>	<b>\$ (43)</b>	<b>\$ 382</b>	<b>\$ (418)</b>

(\*) Represents pre-tax amounts reclassified from accumulated other comprehensive loss. For fiscal 2021, approximately \$0.3 million is expected to be reclassified from accumulated other comprehensive loss as a credit to periodic net periodic pension cost.

*Assumptions*

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

<u>Benefit obligation</u>	<u>2020</u>	<u>2019</u>	
Discount rate .....	2.00%	3.00%	
<u>Net periodic pension cost</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Discount rate .....	3.00%	4.00%	3.25%

The discount rates used at January 2, 2021, December 28, 2019, and December 29, 2018, 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 \$0.3 million for fiscal years 2020, 2019, and 2018. The Company expects that its contribution and benefit payments for post-retirement benefit obligations will be approximately \$0.3 million for fiscal years 2021, 2022, and 2023 and

**CARTER'S, INC.**

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

**NOTE 11 – EMPLOYEE BENEFIT PLANS (Continued)**

approximately \$0.2 million for fiscal years 2024 and 2025. For the five years subsequent to fiscal 2025, the aggregate contributions and benefit payments for post-retirement benefit obligations is expected to be approximately \$0.9 million. The Company does not pre-fund this plan and as a result there are no plan assets.

*DEFERRED COMPENSATION PLAN*

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

*DEFINED CONTRIBUTION PLAN*

The Company also sponsors defined contribution savings plans in the United States and Canada. The U.S. plan covers employees who are at least 21 years of age and have completed one calendar month of service and, if part-time, work a minimum of one thousand hours of service within the one-year period following the commencement of employment or during any subsequent calendar year. The plan provides for a discretionary employer match of employee contributions. The Company's expense for the U.S. defined contribution savings plan totaled approximately \$7.7 million, \$8.0 million, and \$8.0 million for the fiscal years ended January 2, 2021, December 28, 2019, and December 29, 2018, respectively. Expenses related to the Canadian defined contribution savings plan were approximately \$0.2 million in fiscal year 2020, \$0.1 million in fiscal year 2019, and \$0.1 million in fiscal year 2018.

**NOTE 12—INCOME TAXES**

*PROVISION FOR INCOME TAXES*

The provision for income taxes consisted of the following:

(dollars in thousands)	For the fiscal year ended		
	January 2, 2021	December 28, 2019	December 29, 2018
<b><u>Current tax provision:</u></b>			
Federal . . . . .	\$ 31,085	\$ 50,162	\$ 48,129
State . . . . .	6,331	10,548	9,437
Foreign . . . . .	11,105	16,740	17,359
Total current provision . . . . .	\$ 48,521	\$ 77,450	\$ 74,925
<b><u>Deferred tax provision (benefit):</u></b>			
Federal . . . . .	\$ (18,449)	\$ (10,775)	\$ (760)
State . . . . .	(3,741)	(1,882)	140
Foreign . . . . .	(1,064)	(643)	(398)
Total deferred provision . . . . .	(23,254)	(13,300)	(1,018)
Total provision . . . . .	\$ 25,267	\$ 64,150	\$ 73,907

**CARTER'S, INC.**

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

**NOTE 12—INCOME TAXES (Continued)**

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

The Company plans to repatriate undistributed earnings from Hong Kong and has provided for deferred income taxes related to these earnings. Since the current U.S. tax regime taxes foreign earnings in the year earned, taxes associated with repatriation are not material. Deferred income taxes have not been provided for undistributed foreign earnings from Canada or Mexico, or any additional outside basis difference inherent in all foreign entities, as these amounts continue to be indefinitely reinvested in foreign operations. Total undistributed earnings from the Company's subsidiaries in Canada and Mexico amounted to approximately \$70 million. Unrecognized deferred tax liability related to undistributed earnings from the Company's subsidiaries in Canada and Mexico is estimated to be approximately \$3 million, based on applicable withholding taxes, levels of foreign income previously taxed in the U.S. and applicable foreign tax credit limitations. The company accounts for the additional U.S. income tax on its foreign earnings under Global Intangible Low-Taxed Income ("GILTI") as a period expense in the period in which additional tax is due.

The components of income before income taxes were as follows:

(dollars in thousands)	For the fiscal year ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Domestic .....	\$ 73,525	\$ 225,488	\$ 260,722
Foreign .....	61,459	102,464	95,253
Total .....	\$ 134,984	\$ 327,952	\$ 355,975

**EFFECTIVE RATE RECONCILIATION**

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

	For the fiscal year ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Statutory federal income tax rate .....	21.0%	21.0%	21.0%
State income taxes, net of federal income tax benefit .....	2.7%	2.5%	2.8%
Impact of foreign operations .....	(4.8)%	(2.4)%	(1.5)%
Settlement of uncertain tax positions .....	(1.3)%	(0.7)%	(0.4)%
Benefit from stock-based compensation .....	(1.1)%	(0.8)%	(1.1)%
Goodwill impairments and other .....	2.2%	—%	—%
Total .....	18.7%	19.6%	20.8%

The Company and its subsidiaries file a consolidated United States federal income tax return, as well as separate and combined income tax returns in numerous state and foreign jurisdictions. In most cases, the Company is no longer subject to U.S. tax authority examinations for years prior to fiscal 2017.

**CARTER'S, INC.**

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

**NOTE 12—INCOME TAXES (Continued)**

*DEFERRED TAXES*

The following table reflects the Company's calculation of the components of deferred tax assets and liabilities as of January 2, 2021 and December 28, 2019.

<i>(dollars in thousands)</i>	<u>January 2, 2021</u>	<u>December 28, 2019</u>
<b><u>Deferred tax assets:</u></b>	<b>Assets (Liabilities)</b>	
Accounts receivable allowance .....	\$ 4,072	\$ 3,437
Inventory .....	11,775	7,963
Accrued liabilities .....	13,807	10,219
Equity-based compensation .....	5,039	5,222
Deferred employee benefits .....	7,928	7,220
Leasing liabilities .....	130,776	178,356
Other .....	4,961	3,699
Total deferred tax assets .....	<u>178,358</u>	<u>216,116</u>
<b><u>Deferred tax liabilities:</u></b>		
Depreciation .....	(38,777)	(52,664)
Leasing assets .....	(107,269)	(149,085)
Tradenname and licensing agreements .....	(76,409)	(82,592)
Other .....	(5,593)	(4,084)
Total deferred tax liabilities .....	<u>(228,048)</u>	<u>(288,425)</u>
Net deferred tax liability .....	<u>\$ (49,690)</u>	<u>\$ (72,309)</u>

Amounts recognized in the consolidated balance sheets:

<i>(dollars in thousands)</i>	<u>January 2, 2021</u>	<u>December 28, 2019</u>
	<b>Assets (Liabilities)</b>	
Deferred tax assets .....	\$ 3,080	\$ 2,061
Deferred tax liabilities .....	(52,770)	(74,370)
Net deferred tax liability .....	<u>\$ (49,690)</u>	<u>\$(72,309)</u>



**CARTER'S, INC.**

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

**NOTE 12—INCOME TAXES (Continued)**

*UNCERTAIN TAX POSITIONS*

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

<i>(dollars in thousands)</i>	
<b>Balance at December 30, 2017</b> . . . . .	\$12,193
Additions based on tax positions related to fiscal 2018 . . . . .	3,350
Additions for prior year tax positions . . . . .	241
Reductions for lapse of statute of limitations . . . . .	<u>(1,867)</u>
<b>Balance at December 29, 2018</b> . . . . .	\$13,917
Additions based on tax positions related to fiscal 2019 . . . . .	2,197
Reductions for lapse of statute of limitations . . . . .	<u>(2,191)</u>
<b>Balance at December 28, 2019</b> . . . . .	\$13,923
Additions based on tax positions related to fiscal 2020 . . . . .	760
Reductions for prior year tax positions . . . . .	(104)
Reductions for lapse of statute of limitations . . . . .	<u>(2,056)</u>
<b>Balance at January 2, 2021</b> . . . . .	<u><u>\$12,523</u></u>

As of January 2, 2021, the Company had gross unrecognized tax benefits of approximately \$12.5 million, of which \$10.9 million, if ultimately recognized, will affect the Company's effective tax rate in the period settled. The Company has recorded tax positions for which the ultimate deductibility is more likely than not, but for which there is uncertainty about the timing of such deductions. Because of deferred tax accounting, changes in the timing of these deductions would not affect the annual effective tax rate, but would accelerate the payment of cash to the taxing authorities.

Included in the reserves for unrecognized tax benefits are approximately \$3.3 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 2021 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 2020 and 2019, expense recorded on uncertain tax positions was approximately \$0.4 million and \$0.5 million, respectively. During fiscal 2018, interest expense recorded on uncertain tax positions was not significant. The Company had accrued interest on uncertain tax positions of approximately \$2.7 million and \$2.3 million as of January 2, 2021 and December 28, 2019, respectively.

**CARTER'S, INC.**

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

**NOTE 13—EARNINGS PER SHARE**

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

	For the fiscal year ended		
	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)	December 29, 2018 (52 weeks)
<u>Weighted-average number of common and common equivalent shares outstanding:</u>			
Basic number of common shares outstanding . . . . .	43,242,967	44,402,438	46,160,935
Dilutive effect of equity awards . . . . .	164,754	305,514	487,485
Diluted number of common and common equivalent shares outstanding . . . . .	<u>43,407,721</u>	<u>44,707,952</u>	<u>46,648,420</u>
<u>Earnings per share:</u>			
(dollars in thousands, except per share data)			
Basic net income per common share:			
Net income . . . . .	\$ 109,717	\$ 263,802	\$ 282,068
Income allocated to participating securities . . . . .	(1,118)	(2,430)	(2,148)
Net income available to common shareholders . . . . .	<u>\$ 108,599</u>	<u>\$ 261,372</u>	<u>\$ 279,920</u>
Basic net income per common share . . . . .	\$ 2.51	\$ 5.89	\$ 6.06
Diluted net income per common share:			
Net income . . . . .	\$ 109,717	\$ 263,802	\$ 282,068
Income allocated to participating securities . . . . .	(1,115)	(2,419)	(2,132)
Net income available to common shareholders . . . . .	<u>\$ 108,602</u>	<u>\$ 261,383</u>	<u>\$ 279,936</u>
Diluted net income per common share . . . . .	<u>\$ 2.50</u>	<u>\$ 5.85</u>	<u>\$ 6.00</u>
Anti-dilutive shares excluded from dilutive earnings per share calculations <sup>(1)</sup> . . . . .	564,131	351,777	289,839

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

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

**NOTE 14—SEGMENT INFORMATION**

The Company reports segment information based upon a "management approach." The management approach refers to the internal reporting that is used by management for making operating decisions and assessing the performance of the Company's reportable segments. The Company reports its corporate expenses separately as

**CARTER'S, INC.**

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

**NOTE 14—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*, to the consolidated financial statements.

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

(dollars in thousands)	For the fiscal year ended					
	January 2, 2021 (53 weeks)	% of Consolidated Net Sales	December 28, 2019 (52 weeks)	% of Consolidated Net Sales	December 29, 2018 (52 weeks)	% of Consolidated Net Sales
<b>Net sales:</b>						
U.S. Retail	\$1,671,644	55.3%	\$1,884,150	53.5%	\$1,851,193	53.5%
U.S. Wholesale	996,088	32.9%	1,205,646	34.3%	1,180,687	34.1%
International	356,602	11.8%	429,490	12.2%	430,389	12.4%
Total consolidated net sales	<u>\$3,024,334</u>	<u>100.0%</u>	<u>\$3,519,286</u>	<u>100.0%</u>	<u>\$3,462,269</u>	<u>100.0%</u>
<b>Operating income (loss):</b>						
U.S. Retail	\$ 146,806	8.8%	\$ 225,874	12.0%	\$ 224,784	12.1%
U.S. Wholesale	141,456	14.2%	212,558	17.6%	224,194	19.0%
International	(1,224)	(0.3)%	36,650	8.5%	39,253	9.1%
Corporate expenses (*)	(97,169)	n/a	(103,210)	n/a	(96,798)	n/a
Total operating income	<u>\$ 189,869</u>	6.3%	<u>\$ 371,872</u>	10.6%	<u>\$ 391,433</u>	11.3%

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

**CARTER'S, INC.**

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

**NOTE 14—SEGMENT INFORMATION (Continued)**

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

(dollars in millions)	January 2, 2021		
	U.S. Retail	U.S. Wholesale	International
<b>Charges:</b>			
Organizational restructuring <sup>(1)</sup> . . . . .	\$ 5.0	\$ 2.0	\$ 2.2
Goodwill impairment . . . . .	—	—	17.7
<i>Skip Hop</i> tradename impairment charge . . . . .	0.5	6.8	3.7
<i>OshKosh</i> tradename impairment charge . . . . .	13.6	1.6	0.3
Incremental costs associated with COVID-19 pandemic . . . . .	9.6	9.6	2.2
Retail store operating leases and other long-lived asset impairments, net of gain <sup>(2)</sup> . . . . .	7.4	—	0.3
<b>Total charges</b> . . . . .	<u>\$ 36.1</u>	<u>\$ 20.0</u>	<u>\$ 26.4</u>

(1) The fiscal year ended January 2, 2021 also includes corporate charges related to organizational restructuring of \$7.4 million.

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

(dollars in millions)	December 28, 2019			December 29, 2018		
	U.S. Retail	U.S. Wholesale	International	U.S. Retail	U.S. Wholesale	International
<b>Charges:</b>						
<i>Skip Hop</i> tradename impairment charge . . . . .	\$ 1.2	\$19.1	\$10.5	\$ —	\$ —	\$ —
Customer bankruptcy charges . . . . .	—	—	—	—	12.8	—
China business model change . . . . .	—	—	—	—	—	5.3
Benefit related to sale of inventory previously reserved in China . . . . .	—	—	(2.1)	—	—	—
Reversal of store restructuring costs previously recorded during the third quarter of fiscal 2017 . . . . .	(0.7)	—	—	—	—	—
Customer bankruptcy recovery . . . . .	—	(0.6)	—	—	(1.9)	—
Insurance recovery associated with storm- related store closures. . . . .	—	—	—	(0.4)	—	—
<b>Total charges</b> <sup>(1)</sup> . . . . .	<u>\$ 0.5</u>	<u>\$18.5</u>	<u>\$ 8.4</u>	<u>\$(0.4)</u>	<u>\$10.9</u>	<u>\$5.3</u>

(1) The fiscal year ended December 28, 2019 also includes corporate charges related to organizational restructuring of \$1.6 million.

**CARTER'S, INC.**

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

**NOTE 14—SEGMENT INFORMATION (Continued)**

*ADDITIONAL DATA BY SEGMENT*

*Inventory*

The table below represents inventory by segment:

(dollars in thousands)	For the fiscal year ended	
	January 2, 2021	December 28, 2019
U.S. Wholesale (*)	\$ 464,229	\$427,387
U.S. Retail	47,889	87,721
International	87,144	78,879
Total	<u>\$ 599,262</u>	<u>\$593,987</u>

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

The table below represents consolidated net sales by product:

(dollars in thousands)	For the fiscal year ended		
	January 2, 2021 (53 weeks)	December 28, 2019 (52 weeks)	December 29, 2018 (52 weeks)
Baby	\$ 1,026,910	\$ 1,228,905	\$ 1,239,009
Playclothes	1,052,178	1,362,847	1,303,610
Sleepwear	441,358	428,541	431,961
Other (*)	503,888	498,993	487,689
Total net sales	<u>\$ 3,024,334</u>	<u>\$ 3,519,286</u>	<u>\$ 3,462,269</u>

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

*GEOGRAPHICAL DATA*

*Revenue*

The Company's international sales principally represent sales to customers in Canada. Such sales were 70.3%, 65.6%, and 64.2% of total international net sales in fiscal 2020, 2019, and 2018, respectively.

*Long-Lived Assets*

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

(dollars in thousands)	For the fiscal year ended	
	January 2, 2021	December 28, 2019
United States	\$ 232,655	\$ 283,371
International	29,690	36,797
Total	<u>\$ 262,345</u>	<u>\$ 320,168</u>

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 14—SEGMENT INFORMATION (Continued)

Long-lived assets in the international segment relate principally to Canada. Long-lived assets in Canada were 84.0% and 84.3% of total international long-lived assets at the end of fiscal 2020 and 2019, respectively.

#### NOTE 15—FAIR VALUE MEASUREMENTS

##### *INVESTMENTS*

The Company invests in marketable securities, principally equity based mutual funds, to mitigate the risk associated with the investment return on employee deferrals of compensation. All of the marketable securities are included in Other assets on the accompanying consolidated balance sheets, and their aggregate fair values were approximately \$20.2 million and \$19.7 million at the end of fiscal 2020 and fiscal 2019, respectively. These investments are classified as Level 1 within the fair value hierarchy. Investments in marketable securities incurred a net gain of approximately \$2.0 million for fiscal 2020 and a net gain of approximately \$4.0 million for fiscal 2019.

The fair value of the Company's pension plan assets at January 2, 2021 and December 28, 2019, by asset category, are disclosed in Note 11, *Employee Benefits Plans*, to the consolidated financial statements.

##### *FOREIGN EXCHANGE FORWARD CONTRACTS*

Fair values of any unsettled foreign exchange forward contracts are calculated by using readily observable market inputs (market-quoted currency exchange rates in effect between the U.S. dollar and the currencies of Canada and Mexico) and are classified as Level 2 within the fair value hierarchy. Any unsettled foreign exchange forward contracts are included in other current assets or other current liabilities on the Company's consolidated balance sheet at the end of each fiscal reporting period.

As of January 2, 2021 and December 28, 2019, there were no open foreign currency contracts.

Realized and unrealized gains and losses on foreign currency contracts were not material for fiscal 2020, 2019, and 2018.

##### *BORROWINGS*

As of January 2, 2021, the Company had no outstanding borrowings under its secured revolving credit facility.

The fair value of the Company's senior notes at January 2, 2021 was approximately \$1.06 billion. The fair value of these senior notes with a notional value and carrying value (gross of debt issuance costs) of \$1.00 billion was estimated using a quoted price as provided in the secondary market, which considers the Company's credit risk and market related conditions, and is therefore within Level 2 of the fair value hierarchy.

##### *IMPAIRMENT OF LONG-LIVED TANGIBLE ASSETS*

Long-lived assets, which for the Company primarily consist of operating lease assets and store assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The asset group is defined as the lowest level for which identifiable cash flows are available and is largely independent of cash flows of other groups of assets, which for our retail stores, is at the store level. For impaired assets, the Company recognized a loss equal to the difference between the carrying

## CARTER'S, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 15—FAIR VALUE MEASUREMENTS (Continued)

amount of the asset or asset group and its estimated fair value, which is recorded in Selling, general and administrative expenses on the Company's consolidated statements of operations. For operating lease assets, the Company determines the fair value of the assets by discounting the estimated market rental rates over the remaining term of the lease. These estimates can be affected by factors such as future store results, real estate demand, store closure plans, property specific discount rates, and economic conditions that can be difficult to predict. These fair value measurements qualify as level 3 measurements in the fair value hierarchy.

The impact of the COVID-19 pandemic resulted in a qualitative indication of impairment related to our store long-lived assets. In fiscal 2020, the Company recorded impairment charges of operating lease assets and other long-lived assets for our underperforming retail stores of \$9.0 million. The impairment charges were recorded in Selling, general and administrative expenses on the Company's consolidated statements of operations.

#### GOODWILL AND INTANGIBLE ASSETS

Goodwill and indefinite-lived intangible assets are tested annually or if a triggering event occurs that indicates an impairment loss may have been incurred using fair value measurements with unobservable inputs (Level 3).

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

Based on these assessments, a goodwill impairment charge of \$17.7 million was recorded during the first quarter of fiscal 2020 to our Other International reporting unit in the International segment and charges of \$15.5 million and \$11.0 million were recorded on our indefinite-lived *OshKosh* and *Skip Hop* tradename assets, respectively. The charge recorded on our indefinite-lived *OshKosh* tradename asset included charges of \$13.6 million, \$1.6 million, and \$0.3 million in the U.S. Retail, U.S. Wholesale, and International segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *OshKosh* tradename asset. The charge recorded on our indefinite-lived *Skip Hop* tradename asset included charges of \$6.8 million, \$3.7 million, and \$0.5 million in the U.S. Wholesale, International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset. The carrying value of the Company's goodwill for the Other International reporting unit as of January 2, 2021 was \$11.8 million. The carrying values of the Company's indefinite-lived *OshKosh* and *Skip Hop* tradename asset as of January 2, 2021 were \$70.0 million and \$15.0 million, respectively.

In the third quarter of fiscal 2019, the Company's Skip Hop business experienced lower than expected actual and projected sales and profitability due to lower domestic demand, including the loss of a significant customer (Toys "R" Us), lower international demand and higher product costs primarily driven by tariffs imposed on products sourced from China. As a result, the Company conducted an interim impairment assessment in the third quarter of fiscal 2019 on the value of the Company's indefinite-lived *Skip Hop* tradename asset that was recorded in connection with the acquisition of Skip Hop Holdings, Inc. in February 2017. Based on this assessment, a charge of \$30.8 million was recorded during the third quarter of fiscal 2019 on our indefinite-lived *Skip Hop* tradename asset. The charge included charges of \$19.1 million, \$10.5 million, and \$1.2 million in the U.S. Wholesale,

**CARTER'S, INC.**

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

**NOTE 15—FAIR VALUE MEASUREMENTS (Continued)**

International, and U.S. Retail segments, respectively, to reflect the impairment of the value ascribed to the indefinite-lived *Skip Hop* tradename asset.

See Note 6, *Goodwill and Other Intangible Assets*, for further details on the impairment charge and valuation methodologies.

**NOTE 16—OTHER CURRENT LIABILITIES**

Other current liabilities consisted of the following:

(dollars in thousands)	January 2, 2021	December 28, 2019
Accrued employee benefits . . . . .	\$ 22,876	\$ 16,556
Income taxes payable . . . . .	21,164	23,269
Unredeemed gift cards . . . . .	18,300	17,563
Accrued interest . . . . .	12,092	8,579
Accrued taxes . . . . .	10,900	15,036
Accrued salaries and wages . . . . .	10,650	4,695
Other . . . . .	39,258	45,933
Other current liabilities . . . . .	\$ 135,240	\$ 131,631

**NOTE 17—ORGANIZATIONAL RESTRUCTURING AND OFFICE CONSOLIDATION**

In the first and fourth quarters of fiscal 2020, the Company announced several organizational restructuring initiatives which included a reorganization of staffing models across multiple functions to drive labor savings and increase efficiencies, the consolidation of certain functions into our corporate headquarters in Atlanta, Georgia, and over 100 planned store closures by the end of fiscal 2021. In conjunction with these initiatives, the Company recorded the following charges in selling, general and administrative expenses:

(dollars in thousands)	For the fiscal year ended January 2, 2021
Severance and other termination benefits . . . . .	\$12,029
Lease exit costs . . . . .	2,727
Relocation and recruiting . . . . .	1,800
Other closure costs . . . . .	80
Total . . . . .	\$16,636

The Company paid approximately \$4.3 million in severance and other termination benefits during fiscal 2020. As of January 2, 2021 there was approximately \$7.7 million in reserves related to severance and other termination benefits expected to be paid during fiscal 2021 included in Other current liabilities in the Company's consolidated balance sheets. The Company expects to incur additional restructuring-related charges of approximately \$2.0 million to \$3.0 million in fiscal 2021. These charges primarily relate to accelerated depreciation and severance.



**CARTER'S, INC.**

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

**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 include obligations associated with leases, the secured revolving credit agreement, senior notes, employee benefit plans, and facility consolidations/closures as disclosed in Note 17, Organizational Restructuring and Office Consolidation, to the consolidated financial statements.

The Company also has minimum inventory purchase commitments, including fabric commitments, with our suppliers which secure a portion of our material needs for future seasons. In light of the COVID-19 pandemic, some of our orders may be canceled. As of January 2, 2021, the Company had an outstanding reserve of \$13.3 million for adverse inventory and fabric purchase commitments.

## **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, 2021.

### **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, 2021. 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, 2021.

The effectiveness of Carter’s, Inc. and its subsidiaries’ internal control over financial reporting as of January 2, 2021 has been audited by PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K. PricewaterhouseCoopers LLP has issued an attestation report on Carter’s, Inc.’s internal control over financial reporting containing the required disclosures, which appears herein.

**Changes in Internal Control over Financial Reporting**

There were no changes in the Company’s internal control over financial reporting during the fourth quarter of fiscal 2020 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. scheduled to be held on May 20, 2021. We intend to file such definitive proxy statement with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

**ITEM 11. EXECUTIVE COMPENSATION**

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

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

**Equity Compensation Plan Information**

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

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants, and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first</u>
Equity compensation plans approved by security holders			
(*) .....	860,711	\$84.31	3,293,796
Equity compensation plans not approved by security holders	—	—	—
Total .....	<u>860,711</u>	<u>\$84.31</u>	<u>3,293,796</u>

(\*) 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**

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2.	Financial Statement Schedules: None	

(B) Exhibits:

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
3.1	Certificate of Incorporation of Carter's, Inc., as amended on May 22, 2017 (incorporated by reference to Exhibit 3.1 of Carter's, Inc.'s Current Report on Form 8-K filed on May 23, 2017).
3.2	Amended and Restated By-laws of Carter's, Inc., as amended on May 22, 2017 (incorporated by reference to Exhibit 3.2 of Carter's, Inc.'s Current Report on Form 8-K filed on May 23, 2017).
4.1	Specimen Certificate of Common Stock (incorporated by reference to Exhibit 4.1 of Carter's, Inc.'s Registration Statement on Form S-1A (No. 333-98679) filed on October 10, 2003).
4.2	Indenture, dated March 14, 2019, by and among The William Carter Company, certain guarantors from time to time party thereto and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of Carter's, Inc.'s Current Report on Form 8-K filed on March 14, 2019).
4.2.1	Form of 5.625% Senior Notes due 2027 (included in Exhibit 4.2).
4.3	Indenture, dated May 11, 2020, by and among The William Carter Company, certain guarantors from time to time party thereto and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of Carter's, Inc.'s Current Report on Form 8-K filed on May 11, 2020).
4.3.1	Form of 5.500% Senior Notes due 2025 (included in Exhibit 4.3).
4.4	Description of Securities (incorporated by reference to Exhibit 4.3 of Carter's, Inc.'s Annual Report on Form 10-K filed on February 24, 2020).
10.1	Fourth Amended and Restated Credit Agreement, dated as of August 25, 2017, by and among The William Carter Company, as U.S. Borrower, The Genuine Canadian Corp., as Canadian Borrower, Carter's Holdings B.V., as Dutch

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
	Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, U.S. Dollar Facility Swing Line Lender, U.S. Dollar Facility L/C Issuer and Collateral Agent, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Agent, a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, J.P. Morgan Europe Limited, as European Agent, JPMorgan Chase Bank, N.A., London Branch, as a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, Bank of America, N.A. and Bank of Montreal, as Co-Syndication Agents, JPMorgan Chase Bank, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated and BMO Capital Markets Corp., as Joint Lead Arrangers and Bookrunners, Branch Banking & Trust Company, HSBC Securities (USA) Inc., Royal Bank of Canada, SunTrust Bank, U.S. Bank National Association and Wells Fargo Bank, National Association, as Co-Documentation Agents and certain other lenders party thereto (incorporated by reference to Exhibit 10.1 of Carter's, Inc.'s Current Report on Form 8-K filed on August 31, 2017).
10.1.1	Amendment No. 1, dated as of September 21, 2018, to the Fourth Amended and Restated Credit Agreement dated as of August 25, 2017, by and among The William Carter Company, as U.S. Borrower, The Genuine Canadian Corp., as Canadian Borrower, Carter's Holdings B.V., as Dutch Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, Collateral Agent, U.S. Dollar Facility Swing Line Lender and U.S. Dollar Facility L/C Issuer, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Agent, a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, J.P. Morgan Europe Limited, as European Agent, JPMorgan Chase Bank, N.A., London Branch, as a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, each lender from time to time party thereto and the other parties party thereto (incorporated by reference to Exhibit 10.1 of Carter's, Inc.'s Current Report on Form 8-K filed on September 26, 2018).
10.1.2	Amendment No. 2, dated as of May 4, 2020, to the Fourth Amended and Restated Credit Agreement dated as of August 25, 2017, by and among The William Carter Company, as U.S. Borrower, The Genuine Canadian Corp., as Canadian Borrower, Carter's Holdings B.V., as Dutch Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, Collateral Agent, U.S. Dollar Facility Swing Line Lender and U.S. Dollar Facility L/C Issuer, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian Agent, a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, J.P. Morgan Europe Limited, as European Agent, JPMorgan Chase Bank, N.A., London Branch, as a Multicurrency Facility Swing Line Lender and a Multicurrency Facility L/C Issuer, each lender from time to time party thereto and the other parties party thereto (incorporated by reference to Exhibit 10.1 of Carter's, Inc.'s Quarterly Report on Form 10-Q filed on July 24, 2020).
10.2*	Form of Severance Agreement entered into from time to time between The William Carter Company and executive officers (incorporated by reference to Exhibit 10.2 of Carter's, Inc.'s Quarterly Report on Form 10-Q filed on October 29, 2015).
10.3*	Amended and Restated Equity Incentive Plan (incorporated by reference to Appendix B of Carter's, Inc.'s Schedule 14A filed on April 4, 2018).
10.4*	Amended and Restated Annual Incentive Compensation Plan (incorporated by reference to Appendix C of Carter's, Inc.'s Schedule 14A filed on March 31, 2016).

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
10.5*	The William Carter Company Severance Plan, amended and restated effective January 1, 2020 (incorporated by reference to Exhibit 10.5 of Carter’s, Inc.’s Annual Report on Form 10-K filed on February 24, 2020).
10.6*	The William Carter Company Deferred Compensation Plan, dated as of November 10, 2010 (incorporated by reference to Exhibit 10.20 of Carter’s, Inc.’s Annual Report on Form 10-K filed on March 2, 2011).
10.7	Lease Agreement dated March 29, 2012, between The William Carter Company and Duke Secured Financing 2009-1 ALZ, LLC (incorporated by reference to Exhibit 10.21 of Carter’s, Inc.’s Quarterly Report on Form 10-Q filed on April 27, 2012).
10.8	Lease Agreement dated December 14, 2012, between The William Carter Company and Phipps Tower Associates, LLC (incorporated by reference to Exhibit 10.1 of Carter’s, Inc.’s Current Report on Form 8-K filed on December 14, 2012).
10.8.1	Second Amendment to the Lease Agreement dated June 17, 2013, between The William Carter Company and Phipps Tower Associates, LLC (incorporated by reference to Exhibit 10.19 of Carter’s, Inc.’s Quarterly Report on Form 10-Q filed on October 24, 2013).
21	Subsidiaries of Carter’s, Inc.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.
31.2	Rule 13a-15(e)/15d-15(e) and 13a-15(f)/15d-15(f) Certification.
32	Section 1350 Certification.
Exhibit No. (101).INS	XBRL Instance Document—the instant document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
Exhibit No. (101).SCH	XBRL Taxonomy Extension Schema Document
Exhibit No. (101).CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit No. (101).DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit No. (101).LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit No. (101).PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit No. 104	The cover page from this Current Report on Form 10-K formatted as Inline XBRL

\* Indicates a management contract or compensatory plan.

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

Omitted at registrant’s option.

## SIGNATURES

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

CARTER'S, INC.

/s/ MICHAEL D. CASEY

Michael D. Casey  
Chief Executive Officer

Date: February 26, 2021

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MICHAEL D. CASEY</u> Michael D. Casey	Chairman and Chief Executive Officer (Principal Executive Officer)	February 26, 2021
<u>/s/ RICHARD F. WESTENBERGER</u> Richard F. Westenberger	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2021
<u>/s/ HALI BORENSTEIN</u> Hali Borenstein	Director	February 26, 2021
<u>/s/ AMY WOODS BRINKLEY</u> Amy Woods Brinkley	Director	February 26, 2021
<u>/s/ GIUSEPPINA BUONFANTINO</u> Giuseppina Buonfantino	Director	February 26, 2021
<u>/s/ A. BRUCE CLEVERLY</u> A. Bruce Cleverly	Director	February 26, 2021
<u>/s/ JEVIN S. EAGLE</u> Jevin S. Eagle	Director	February 26, 2021



<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ MARK P. HIPPI</u> Mark P. Hipp	Director	February 26, 2021
<u>/s/ WILLIAM J. MONTGORIS</u> William J. Montgoris	Director	February 26, 2021
<u>/s/ RICHARD A. NOLL</u> Richard A. Noll	Director	February 26, 2021
<u>/s/ DAVID PULVER</u> David Pulver	Director	February 26, 2021
<u>/s/ GRETCHEN W. SCHAR</u> Gretchen W. Schar	Director	February 26, 2021

Form 10-K

**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 26, 2021

/s/ MICHAEL D. CASEY

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Michael D. Casey  
*Chief Executive Officer*

**CERTIFICATION**

I, Richard F. Westenberger, certify that:

1. I have reviewed this annual report on Form 10-K of Carter's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 26, 2021

/s/ RICHARD F. WESTENBERGER

Richard F. Westenberger  
Chief Financial Officer

**CERTIFICATION**

Each of the undersigned in the capacity indicated hereby certifies that, to his knowledge, this Annual Report on Form 10-K for the fiscal year ended January 2, 2021 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 26, 2021

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/s/ MICHAEL D. CASEY

Michael D. Casey  
*Chief Executive Officer*

February 26, 2021

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/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.







