

CARTERS INC  
Form 10-Q  
July 27, 2017

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934 FOR THE QUARTERLY PERIOD ENDED JULY 1, 2017 OR

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

Commission file number:

001-31829

CARTER'S, INC.

(Exact name of Registrant as specified in its charter)

Delaware 13-3912933

(state or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

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)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes (X) No ( )

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)  
Large Accelerated Filer (X) Accelerated Filer ( )

Non-Accelerated Filer ( ) (Do not check if a smaller reporting company) Smaller Reporting Company ( )

Emerging Growth Company ( )

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes (X) No ( )

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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Common Stock	Outstanding Shares at July 21, 2017
Common stock, par value \$0.01 per share	47,834,177

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PART I - FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS  
CARTER'S, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except per share data)  
(unaudited)

	July 1, 2017	December 31, 2016	July 2, 2016
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 173,564	\$ 299,358	\$ 205,080
Accounts receivable, net	165,183	202,471	150,633
Finished goods inventories	610,423	487,591	587,434
Prepaid expenses and other current assets	44,527	32,180	46,189
Deferred income taxes	—	35,486	32,816
Total current assets	993,697	1,057,086	1,022,152
Property, plant, and equipment, net of accumulated depreciation of \$384,881, \$345,907, and \$317,580, respectively	382,472	385,874	386,034
Tradenames and other intangible assets, net	400,735	308,928	309,017
Goodwill	231,709	176,009	177,540
Other assets	23,246	18,700	17,749
Total assets	\$2,031,859	\$ 1,946,597	\$ 1,912,492
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$217,340	\$ 158,432	\$ 190,366
Other current liabilities	94,644	119,177	80,595
Total current liabilities	311,984	277,609	270,961
Long-term debt, net	661,846	580,376	580,678
Deferred income taxes	133,251	130,656	128,682
Other long-term liabilities	174,867	169,832	165,469
Total liabilities	\$1,281,948	\$ 1,158,473	\$ 1,145,790
Commitments and contingencies - Note 13			
Stockholders' equity:			
Preferred stock; par value \$.01 per share; 100,000 shares authorized; none issued or outstanding at July 1, 2017, December 31, 2016, and July 2, 2016	—	—	—
Common stock, voting; par value \$.01 per share; 150,000,000 shares authorized; 47,971,577, 48,948,670 and 50,194,955 shares issued and outstanding at July 1, 2017, December 31, 2016 and July 2, 2016, respectively	480	489	502
Accumulated other comprehensive loss	(30,653 )	(34,740 )	(30,533 )
Retained earnings	780,084	822,375	796,733
Total stockholders' equity	749,911	788,124	766,702
Total liabilities and stockholders' equity	\$2,031,859	\$ 1,946,597	\$ 1,912,492

See accompanying notes to the unaudited condensed consolidated financial statements.



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

	Fiscal quarter ended		Two fiscal quarters ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net sales	\$692,117	\$639,471	\$1,424,872	\$1,363,556
Cost of goods sold	388,660	357,289	805,613	770,445
Gross profit	303,457	282,182	619,259	593,111
Selling, general, and administrative expenses	250,146	228,464	497,940	457,460
Royalty income	(11,210 )	(9,525 )	(21,768 )	(20,600 )
Operating income	64,521	63,243	143,087	156,251
Interest expense	7,194	6,803	14,298	13,542
Interest income	(79 )	(178 )	(218 )	(385 )
Other (income) expense, net	(544 )	516	(765 )	3,709
Income before income taxes	57,950	56,102	129,772	139,385
Provision for income taxes	20,025	19,904	45,183	49,207
Net income	\$37,925	\$36,198	\$84,589	\$90,178
Basic net income per common share	\$0.79	\$0.72	\$1.75	\$1.77
Diluted net income per common share	\$0.78	\$0.71	\$1.73	\$1.75
Dividend declared and paid per common share	\$0.37	\$0.33	\$0.74	\$0.66

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

(unaudited)

	Fiscal quarter ended		Two fiscal quarters ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net income	\$37,925	\$36,198	\$84,589	\$90,178
Other comprehensive income:				
Foreign currency translation adjustments	3,140	548	4,087	5,834
Comprehensive income	\$41,065	\$36,746	\$88,676	\$96,012

See accompanying notes to the unaudited condensed consolidated financial statements.

## CARTER'S, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(amounts in thousands, except share amounts)

(unaudited)

	Common stock - shares	Common stock - \$	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity
Balance at December 31, 2016	48,948,670	\$ 489	\$ —	\$ (34,740 )	\$ 822,375	\$ 788,124
Exercise of stock options	60,660	1	3,121	—	—	3,122
Withholdings from vesting of restricted stock	(65,804 )	(1 )	(5,589)	—	—	(5,590 )
Restricted stock activity	145,600	1	(1 )	—	—	—
Stock-based compensation	—	—	8,464	—	—	8,464
Issuance of common stock	13,860	1	1,181	—	—	1,182
Repurchase of common stock	(1,131,409 )	(11 )	(7,176)	—	(91,049 )	(98,236 )
Cash dividends declared and paid	—	—	—	—	(35,831 )	(35,831 )
Comprehensive income	—	—	—	4,087	84,589	88,676
Balance at July 1, 2017	47,971,577	\$ 480	\$ —	\$ (30,653 )	\$ 780,084	\$ 749,911

See accompanying notes to the unaudited condensed consolidated financial statements.



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

	Two fiscal quarters ended	
	July 1, 2017	July 2, 2016
Cash flows from operating activities:		
Net income	\$84,589	\$90,178
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39,705	34,916
Amortization of tradenames	892	1,831
Amortization of fair value step up of inventory	400	—
Amortization of debt issuance costs	749	725
Non-cash stock-based compensation expense	9,646	9,250
Foreign currency (gain) loss, net	(555 )	3,130
Income tax benefit from stock-based compensation	—	(3,684 )
Loss on disposal of property, plant, and equipment	221	133
Deferred income taxes	3,227	1,258
Effect of changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	57,215	57,229
Finished goods inventories	(91,846 )	(114,817)
Prepaid expenses and other assets	(13,871 )	(12,643 )
Accounts payable and other liabilities	16,961	18,093
Net cash provided by operating activities	107,333	