CARTERS INC
Form 10-Q
April 29, 2011

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED APRIL 2, 2011 OR

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

Commission file number:
001-31829

CARTER'S, INC.
(Exact name of Registrant as specified in its charter)

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

The Proscenium
1170 Peachtree Street NE, Suite 900
Atlanta, Georgia 30309
(Address of principal executive offices, including zip code)
(404) 745-2700
(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, or a smaller reporting company. See definition of "large accelerated filer, accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer (X) Accelerated Filer ( ) Non-Accelerated Filer ( ) Smaller Reporting Company ( )

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

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

Common Stock	Outstanding Shares at April 29, 2011
Common stock, par value $0.01 per share	57,761,103

CARTER'S, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	April 2, 2011	January 1, 2011	April 3, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	$ 248,871	$ 247,382	$ 365,865
Accounts receivable, net	160,057	121,453	118,888
Finished goods inventories, net	217,458	298,509	143,125
Prepaid expenses and other current assets	19,650	17,372	10,439
Deferred income taxes	26,667	31,547	26,352
Total current assets	672,703	716,263	664,669
Property, plant, and equipment, net	92,553	94,968	85,783
Tradenames	305,733	305,733	305,733
Goodwill	136,570	136,570	136,570
Deferred debt issuance costs, net	3,155	3,332	2,189
Licensing agreements, net	--	--	957
Other assets	322	316	307
Total assets	$ 1,211,036	$ 1,257,182	$ 1,196,208
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ --	$ --	$ 3,503
Accounts payable	53,077	116,481	40,689
Other current liabilities	49,640	66,891	54,230
Total current liabilities	102,717	183,372	98,422
Long-term debt	236,000	236,000	330,145
Deferred income taxes	112,453	113,817	109,018
Other long-term liabilities	46,873	44,057	41,935
Total liabilities	498,043	577,246	579,520
Commitments and contingencies			
Stockholders' equity:			
Preferred stock; par value $.01 per share; 100,000 shares authorized; none issued or outstanding at April 2, 2011, January 1, 2011, and April 3, 2010	--	--	--
Common stock, voting; par value $.01 per share; 150,000,000 shares authorized; 57,761,103,	578	575	594

57,493,567, and 59,390,706 shares issued and outstanding at April 2, 2011, January 1, 2011, and April 3, 2010, respectively						
Additional paid-in capital		211,531		210,600		252,990
Accumulated other comprehensive loss		(1,890)		(1,890)		(3,900)
Retained earnings		502,774		470,651		367,004
Total stockholders' equity		712,993		679,936		616,688
Total liabilities and stockholders' equity	$	1,211,036	$	1,257,182	$	1,196,208

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)

	For the three-month periods ended April 2, 2011	For the three-month periods ended April 3, 2010
Net sales	$ 469,000	$ 409,049
Cost of goods sold	311,194	242,239
Gross profit	157,806	166,810
Selling, general, and administrative expenses	113,501	105,295
Royalty income	(9,329)	(9,654)
Operating income	53,634	71,169
Interest expense, net	1,850	2,444
Income before income taxes	51,784	68,725
Provision for income taxes	19,661	25,900
Net income	$ 32,123	$ 42,825
Basic net income per common share (Note 12)	$ 0.56	$ 0.73
Diluted net income per common share (Note 12)	$ 0.55	$ 0.71

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the three-month periods ended	
	April 2, 2011	April 3, 2010
Cash flows from operating activities:		
Net income	$32,123	$42,825
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,130	7,882
Amortization of debt issuance costs	177	280
Non-cash stock-based compensation expense	2,151	1,690
Income tax benefit from exercised stock options	(407)	(8,263)
Loss (gain) on disposal/sale of property, plant, and equipment	100	(181)
Deferred income taxes	3,353	5,469
Effect of changes in operating assets and liabilities:		
Accounts receivable	(38,604)	(36,794)
Inventories	81,051	70,875
Prepaid expenses and other assets	(2,284)	673
Accounts payable and other liabilities	(76,496)	(61,028)
Net cash provided by operating activities	9,294	23,428
Cash flows from investing activities:		
Capital expenditures	(6,813)	(8,223)
Proceeds from sale of property, plant, and equipment	--	286
Net cash used in investing activities	(6,813)	(7,937)
Cash flows from financing activities:		
Payments on Term Loan	--	(875)
Income tax benefit from exercised stock options	407	8,263
Withholdings from vesting of restricted stock	(1,406)	(517)
Proceeds from exercise of stock options	7	8,462
Net cash (used in) provided by financing activities	(992)	15,333
Net increase in cash and cash equivalents	1,489	30,824
Cash and cash equivalents, beginning of period	247,382	335,041
Cash and cash equivalents, end of period	$248,871	$365,865

See accompanying notes to the unaudited condensed consolidated financial statements.

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CARTER’S, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS’ EQUITY
(dollars in thousands, except for share data)
(unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive (loss) income	Retained earnings	Total stockholders’ equity
Balance at January 1, 2011	$ 575	$ 210,600	$ (1,890)	$ 470,651	$ 679,936
Exercise of stock options (2,520 shares)	--	7	--	--	7
Withholdings from vesting of restricted stock (49,584 shares)	--	(1,406)	--	--	(1,406)
Income tax benefit from exercised stock options	--	407	--	--	407
Restricted stock activity	3	(3)	--	--	--
Stock-based compensation expense	--	1,926	--	--	1,926
Comprehensive income:					
Net income	--	--	--	32,123	32,123
Total comprehensive income	--	--	--	32,123	32,123
Balance at April 2, 2011	$ 578	$ 211,531	$ (1,890)	$ 502,774	$ 712,993

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – THE COMPANY:

Carter's, Inc. and its wholly owned subsidiaries (collectively, the "Company," "we," "us," "its," and "our") design, source, and market branded childrenswear under the Carter's, Child of Mine, Just One You, Precious Firsts, OshKosh, and related brands. Our products are sourced through contractual arrangements with manufacturers worldwide for wholesale distribution to major domestic retailers, including the mass channel, for our 316 Carter's and 179 OshKosh retail stores, and our eCommerce business that market our brand name merchandise and other licensed products manufactured by other companies.

NOTE 2 – BASIS OF PREPARATION:

The accompanying unaudited condensed 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.

In our opinion, the Company's accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of our financial position as of April 2, 2011 and April 3, 2010, the results of our operations for the three-month periods ended April 2, 2011 and April 3, 2010, cash flows for the three-month periods ended April 2, 2011 and April 3, 2010 and changes in stockholders' equity for the three-month period ended April 2, 2011. Operating results for the three-month period ended April 2, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. Our accompanying condensed consolidated balance sheet as of January 1, 2011 is from our audited consolidated financial statements included in our most recently filed Annual Report on Form 10-K, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP").

Certain information and footnote disclosure normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and the instructions to Form 10-Q. The accounting policies we follow are set forth in our most recently filed Annual Report on Form 10-K in the notes to our audited consolidated financial statements for the fiscal year ended January 1, 2011.

Our fiscal year ends on the Saturday, in December or January, nearest the last day of December. The accompanying unaudited condensed consolidated financial statements for the first quarter of fiscal 2011 reflect our financial position as of April 2, 2011. The first quarter of fiscal 2010 ended on April 3, 2010.

Certain prior year amounts have been reclassified to facilitate comparability with current year presentation.

NOTE 3 – COMPREHENSIVE INCOME:

Comprehensive income is summarized as follows:

	For the three-month periods ended	
(dollars in thousands)	April 2, 2011	April 3, 2010
	$ 32,123	$ 42,825

Net income		
Unrealized gain on interest rate swap agreements, net of tax of $98	--	166
Total comprehensive income	$ 32,123	$ 42,991

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

NOTE 4 – LONG-TERM DEBT:

Long-term debt consisted of the following:

(dollars in thousands)	April 2, 2011	January 1, 2011	April 3, 2010
Revolving credit facility	$ 236,000	$ 236,000	$ --
Former term loan	--	--	333,648
Current maturities	--	--	(3,503)
Total long-term debt	$ 236,000	$ 236,000	$ 330,145

On October 15, 2010, the Company entered into a new $375 million ($130 million sub-limit for letters of credit and a swing line sub-limit of $40 million) revolving credit facility with Bank of America as sole lead arranger and administrative agent, JP Morgan Chase Bank as syndication agent, and other financial institutions. The new revolving credit facility was immediately drawn upon to pay off the Company's former term loan of $232.2 million and pay transaction fees and expenses of $3.8 million, leaving approximately $130 million available under the revolver for future borrowings (net of letters of credit of approximately $8.6 million). At April 2, 2011 and January 1, 2011, we had approximately $236.0 million in revolver borrowings, exclusive of $8.6 million of outstanding letters of credit, at an effective interest rate of 2.50% and 2.51%, respectively.

The term of the new revolving credit facility expires October 15, 2015. This revolving credit facility provides for two pricing options for revolving loans: (i) revolving loans on which interest is payable quarterly at a base rate equal to the highest of (x) the Federal Funds Rate plus ½ of 1%, (y) the rate of interest in effect for such day as publicly announced from time to time by Bank of America, N.A. as its prime rate, or (z) the Eurodollar Rate plus 1%, plus, in each case, an applicable margin initially equal to 1.25%, which may be adjusted based upon a leverage-based pricing grid ranging from 1.00% to 1.50% and (ii) revolving loans on which interest accrues for one, two, three, six or if, generally available, nine or twelve month interest periods (but is payable not less frequently than every three months) at a rate of interest per annum equal to an adjusted British Bankers Association LIBOR rate, plus an applicable margin initially equal to 2.25%, which may be adjusted based upon a leverage-based pricing grid ranging from 2.00% to 2.50%. Amounts currently outstanding under the revolving credit facility initially accrue interest at a LIBOR rate plus 2.25%.

The new revolving credit facility contains and defines financial covenants, including a lease adjusted leverage ratio (defined as, with certain adjustments, the ratio of the Company's consolidated indebtedness plus six times rent expense to consolidated net income before interest, taxes, depreciation, amortization, and rent expense ("EBITDAR")) to exceed (x) if such period ends on or before December 31, 2014, 3.75:1.00 and (y) if such period ends after December 31, 2014, 3.50:1.00; and consolidated fixed charge coverage ratio (defined as, with certain adjustments, the ratio of consolidated EBITDAR to consolidated fixed charges (defined as interest plus rent expense)), for any such period to be less than 2.75:1.00.

The Company's former senior credit facility was comprised of a $333.6 million term loan (the "former term loan") and a $125 million revolving credit facility (the "former revolver") (including a sub-limit for letters of credit of $80 million). There were no borrowings outstanding under the former revolver, exclusive of approximately $8.6 million of outstanding letters of credit at April 3, 2010. Amounts borrowed under the former term loan had an applicable rate of LIBOR + 1.50%, regardless of the Company's overall leverage level. Interest was payable at the end of interest rate reset periods, which vary in length but in no case exceeded 12 months for LIBOR rate loans and quarterly for prime rate loans. The effective interest rate on former term loan borrowings as of April 3, 2010 was 1.75%.

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

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill as of April 2, 2011, represents the excess of the cost of the acquisition of Carter's, Inc. which was consummated on August 15, 2001 over the fair value of the net assets acquired. Our goodwill is not deductible for tax purposes. Our Carter's goodwill and Carter's and OshKosh tradenames are deemed to have indefinite lives and are not being amortized.

The Company's intangible assets were as follows:

		April 2, 2011			January 1, 2011		
(dollars in thousands)	Weighted-average useful life	Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Carter's goodwill (1)	Indefinite	$ 136,570	$ --	$ 136,570	$ 136,570	$ --	$ 136,570
Carter's tradename	Indefinite	$ 220,233	$ --	$ 220,233	$ 220,233	$ --	$ 220,233
OshKosh tradename	Indefinite	$ 85,500	$ --	$ 85,500	$ 85,500	$ --	$ 85,500
OshKosh licensing agreements	4.7 years	$ 19,100	$ 19,100	$ --	$ 19,100	$ 19,100	$ --

			April 3, 2010	
(dollars in thousands)	Weighted-average useful life	Gross amount	Accumulated amortization	Net amount
Carter's goodwill (1)	Indefinite	$ 136,570	$ --	$ 136,570
Carter's tradename	Indefinite	$ 220,233	$ --	$ 220,233
OshKosh tradename	Indefinite	$ 85,500	$ --	$ 85,500
OshKosh licensing agreements	4.7 years	$ 19,100	$ 18,143	$ 957

(1) $51.8 million of which relates to Carter's wholesale segment, $82.0 million of which relates to Carter's retail segment, and $2.7 million of which relates to Carter's mass channel segment.

Amortization expense for intangible assets was approximately $0.8 million for the three-month period ended April 3, 2010. All intangible assets subject to amortization were fully amortized as of January 1, 2011.

NOTE 6 – INCOME TAXES:

The Company and its subsidiaries file income tax returns in the United States and in various states and local jurisdictions. Previously, the Internal Revenue Service completed an income tax audit through fiscal 2007. In most cases, the Company is no longer subject to state and local tax authority examinations for years prior to fiscal 2007.

As of April 2, 2011, the Company had gross unrecognized tax benefits of approximately $9.3 million, $6.4 million of which, if ultimately recognized, will impact the Company's effective tax rate in the period settled. The Company has recorded tax positions for which the ultimate deductibility is highly certain, 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 impact the annual effective tax rate, but would accelerate the payment of cash to the taxing authorities.

Included in the reserves for unrecognized tax benefits as of April 2, 2011, are approximately $2.0 million of reserves for which the statute of limitations is expected to expire in the third or fourth quarter of fiscal 2011. If these tax benefits are ultimately recognized, such recognition, net of federal income taxes, may impact our annual effective tax rate for fiscal 2011 and the effective tax rate in the quarter in which the benefits are recognized.

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

NOTE 6 – INCOME TAXES: (Continued)

We recognize 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 the first quarter of fiscal 2011 and 2010, the Company recognized interest expense on uncertain tax positions of approximately $0.1 million. The Company had approximately $0.7 million, $0.6 million, and $0.6 million of interest accrued as of April 2, 2011, January 1, 2011, and April 3, 2010, respectively.

NOTE 7 – FAIR VALUE MEASUREMENTS:

The Company accounts for its fair value measurements in accordance with accounting guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value hierarchy for disclosure of fair value measurements is 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	- Inputs that are unobservable (for example, cash flow modeling inputs based on assumptions)

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

	April 2, 2011			January 1, 2011			April 3, 2010		
(dollars in millions)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets									
Investments	$ 175.4	$ --	$ --	$ 226.5	$ --	$ --	$ --	$ 342.1	$ --
Liabilities									
Interest rate swap agreements	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ 1.1	$ --

At April 2, 2011, we had approximately $50.4 million of cash invested in money market deposit accounts ($0.2 million in Bank of America and $50.2 million in JP Morgan) and $125.0 million in U.S. Treasury bills.

At January 1, 2011, we had approximately $151.5 million of cash invested in money market deposit accounts ($73.3 million in Bank of America and $78.2 million in JP Morgan) and $75.0 million in U.S. Treasury bills.

At April 3, 2010, we had approximately $215.1 million invested in a money market deposit account and $127.0 million invested in a Dreyfus Treasury Prime Cash Management fund, which invests only in U.S. Treasury Bills or U.S. Treasury Notes.

Our former senior credit facility required us to hedge at least 25% of our variable rate debt under this facility. The Company historically entered into interest rate swap agreements in order to hedge the risk of interest rate fluctuations. These interest rate swap agreements were designated as cash flow hedges of the variable interest payments on a portion of our variable rate former term loan debt. Our interest rate swap agreements were traded in the over-the-counter market. Fair values were based on quoted market prices for similar assets or liabilities or determined using inputs that use as their basis readily observable market data that are actively quoted and can be validated through external sources, including third-party pricing services, brokers, and market transactions. Our interest rate swap agreements were classified as current as their terms span less than one year.

As of April 3, 2010, approximately $134.8 million of our $333.6 million of outstanding debt was hedged under interest rate swap agreements. In connection with the repayment of the Company's former term loan, the Company terminated its two remaining interest rate swap agreements totaling $100.0 million originally scheduled to mature in January 2011.

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

NOTE 7 – FAIR VALUE MEASUREMENTS: (Continued)

The fair value of our derivative instruments in our accompanying unaudited condensed consolidated balance sheets were as follows:

	Asset Derivatives		Liability Derivatives	
(dollars in millions)	Balance sheet location	Fair value	Balance sheet location	Fair value
April 2, 2011	Prepaid expenses and other current assets	$ --	Other current liabilities	$ --
January 1, 2011	Prepaid expenses and other current assets	$ --	Other current liabilities	$ --
April 3, 2010	Prepaid expenses and other current assets	$ --	Other current liabilities	$ 1.1

The effect of derivative instruments designated as cash flow hedges on our accompanying unaudited condensed consolidated financial statements was as follows:

	For the three-month period ended April 2, 2011		For the three-month period ended April 3, 2010	
(dollars in thousands)	Amount of gain (loss) recognized in accumulated other comprehensive income (loss) on effective	Amount of (loss) gain reclassified from accumulated other comprehensive income (loss) into interest expense	Amount of gain (loss) recognized in accumulated other comprehensive income (loss) on	Amount of (loss) gain reclassified from accumulated other comprehensive income (loss) into interest expense

	hedges (1)		effective hedges (1)	
Interest rate hedge agreements	$ --	$ --	$ 166	$ (622)

(1) Amount recognized in accumulated other comprehensive income (loss), net of tax benefit of $98,000 for the three-month period ended April 3, 2010.

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

NOTE 8 – EMPLOYEE BENEFIT PLANS:

Under a defined benefit plan frozen in 1991, we offer a comprehensive post-retirement medical plan to current and certain future retirees and their spouses until they become eligible for Medicare or a Medicare Supplement Plan. We also offer 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 our liabilities are net of these expected employee contributions. See Note 7 "Employee Benefit Plans" to our audited consolidated financial statements in our most recently filed Annual Report on Form 10-K for further information.

The components of post-retirement benefit expense charged to operations are as follows:

	For the three-month periods ended	
(dollars in thousands)	April 2, 2011	April 3, 2010
Service cost – benefits attributed to service during the period	$ 18	$ 23
Interest cost on accumulated post-retirement benefit obligation	106	133
Amortization of net actuarial gain	(5)	(7)
Total net periodic post-retirement benefit cost	$ 119	$ 149

We have an obligation under a defined benefit plan covering certain former officers and their spouses. The component of pension expense charged to operations is as follows:

	For the three-month periods ended	
(dollars in thousands)	April 2, 2011	April 3, 2010
Interest cost on accumulated pension benefit obligation	$ 8	$ 12

Under a defined benefit pension plan frozen as of December 31, 2005, certain current and former employees of OshKosh are eligible to receive benefits. The net periodic pension (benefit) expense associated with this pension plan and included in the statement of operations was comprised of:

	For the three-month periods ended	
(dollars in thousands)	April 2,	April 3,

	2011	2010
Interest cost on accumulated pension benefit obligation	$ 614	$ 598
Expected return on assets	(778)	(719)
Amortization of actuarial loss	--	34
Total net periodic pension benefit	$ (164)	$ (87)

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

NOTE 9 – COMMON STOCK:

On February 16, 2007, the Company's Board of Directors approved a share repurchase authorization, pursuant to which the Company was authorized to purchase up to $100 million of its outstanding common shares (the "2007 Authorization"). On June 15, 2010, the Company's Board of Directors approved a new share repurchase authorization, pursuant to which the Company is authorized to purchase up to an additional $100 million of its outstanding common shares (the "2010 Authorization"). The Company has completed repurchase of outstanding shares in the amount totaling the entire $100 million approved under the 2007 Authorization. Under the 2010 Authorization, the Company has repurchased and retired 1,686,830 shares, or approximately $41.1 million, of its common stock at an average price of $24.37 per share. The total remaining capacity under this authorization was approximately $58.9 million as of April 2, 2011. This authorization has no expiration date.

The Company did not repurchase any shares of its common stock during the three-month periods ended April 2, 2011 and April 3, 2010. We have reduced common stock by the par value of such shares repurchased and have deducted the remaining excess repurchase price over par value from additional paid-in capital. Future repurchases may occur from time to time in the open market, in negotiated transactions, or otherwise. The timing and amount of any repurchases will be determined by the Company's management, based on its evaluation of market conditions, share price, other investment priorities, and other factors.

NOTE 10 – STOCK-BASED COMPENSATION:

Under our 2003 Amended and Restated Equity Incentive Plan (the "Plan"), the compensation committee of our Board of Directors may award incentive stock options (ISOs and non-ISOs), stock appreciation rights (SARs), restricted stock, unrestricted stock, stock deliverable on a deferred basis, performance-based stock awards, and cash payments intended to help defray the cost of awards. Our Compensation Committee approved an amendment to the Plan on February 24, 2011, which, if approved by the shareholders at the Annual Meeting to be held on May 13, 2011, will become effective on that date. The fair value of time-based or performance-based stock option grants are estimated on the date of grant using the Black-Scholes option pricing method with the following weighted-average assumptions used for grants issued during the three-month period ended April 2, 2011.

	Assumptions	
Volatility	34.96	%
Risk-free interest rate	2.87	%
Expected term (years)	7	
Dividend yield	--	

The fair value of restricted stock is determined based on the quoted closing price of our common stock on the date of grant.

The following table summarizes our stock option and restricted stock activity during the three-month period ended April 2, 2011:

	Time-based	Restricted stock

	stock options	
Outstanding, January 1, 2011	2,471,486	481,413
Granted	366,600	324,200
Exercised	(2,520)	--
Vested restricted stock	--	(141,287)
Forfeited	(21,550)	(9,600)
Expired	(5,000)	--
Outstanding, April 2, 2011	2,809,016	654,726
Exercisable, April 2, 2011	1,746,954	--

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

NOTE 10 – STOCK-BASED COMPENSATION: (Continued)

During the three-month period ended April 2, 2011, we granted 366,600 time-based stock options with a weighted-average Black-Scholes fair value of $12.00 per share and a weighted-average exercise price of $28.44 per share. In connection with this grant, we recognized approximately $107,000 in stock-based compensation expense during the three-month period ended April 2, 2011.

During the three-month period ended April 2, 2011, we granted 324,200 shares of restricted stock to employees with a weighted-average fair value on the date of grant of $28.43. In connection with this grant, we recognized approximately $177,000 in stock-based compensation expense during the three-month period ended April 2, 2011.

Unrecognized stock-based compensation expense related to outstanding unvested stock options and unvested restricted stock awards is expected to be recorded as follows:

(dollars in thousands)	Time-based stock options	Restricted stock	Total
2011 (period from April 3 through December 31, 2011)	$2,715	$3,871	$6,586
2012	3,090	4,671	7,761
2013	2,280	3,574	5,854
2014	1,218	2,442	3,660
Total	$9,303	$14,558	$23,861

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

NOTE 11 – SEGMENT INFORMATION:

We report segment information in accordance with accounting guidance on segment reporting, which requires segment information to be disclosed 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 our reportable segments. We report our corporate expenses separately as they are not included in the internal measures of segment operating performance used by the Company in order to measure the underlying performance of our reportable segments.

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

(dollars in thousands)	For the three-month periods ended April 2, 2011	% of Total	April 3, 2010	% of Total
Net sales:				
Carter's:				
Wholesale	$ 187,878	40.1 %	$ 146,258	35.7 %
Retail (a)	137,862	29.4 %	118,139	28.9 %
Mass Channel	66,636	14.2 %	67,920	16.6 %
Carter's total net sales	392,376	83.7 %	332,317	81.2 %
OshKosh:				
Retail (a)	53,994	11.5 %	55,145	13.5 %
Wholesale	22,630	4.8 %	21,587	5.3 %
OshKosh total net sales	76,624	16.3 %	76,732	18.8 %
Total net sales	$ 469,000	100.0 %	$ 409,049	100.0 %
Operating income (loss):		% of segment net sales		% of segment net sales
Carter's:				
Wholesale	$ 34,707	18.5 %	$ 40,297	27.6 %
Retail (a)	27,353	19.8 %	26,143	22.1 %
Mass Channel	5,445	8.2 %	12,794	18.8 %
	67,505	17.2 %	79,234	23.8 %

Carter’s operating income				
OshKosh:				
Retail (a)	(6,073)	(11.2 %)	1,963	3.6 %
Wholesale	2,625	11.6 %	3,593	16.6 %
Mass Channel (b)	808	--	766	--
OshKosh operating (loss) income	(2,640)	(3.4 %)	6,322	8.2 %
Segment operating income	64,865	13.8 %	85,556	20.9 %
Corporate expenses (c)	(11,231)	(2.4 %)		