

CARTERS INC
Form 10-Q
July 26, 2013

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 JUNE 29, 2013 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 (X) No ()

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 July 19, 2013

Common stock, par value \$0.01 per share

59,236,663

CARTER'S, INC.
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PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CARTER'S, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except for share data)

(unaudited)

	June 29, 2013	December 29, 2012	June 30, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	\$312,132	\$382,236	\$237,629
Accounts receivable, net	133,277	168,046	131,888
Finished goods inventories, net	429,223	349,530	377,857
Prepaid expenses and other current assets	48,621	22,216	27,485
Deferred income taxes	32,948	35,675	23,838
Total current assets	956,201	957,703	798,697
Property, plant, and equipment, net	208,094	170,110	139,592
Goodwill	186,957	189,749	188,621
Tradenames and other intangibles, net	342,883	306,072	306,249
Deferred debt issuance costs, net	2,486	2,878	2,270
Other assets	5,130	3,597	436
Total assets	\$1,701,751	\$1,630,109	\$1,435,865
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$199,588	\$149,625	\$120,922
Other current liabilities	74,062	94,610	44,639
Total current liabilities	273,650	244,235	165,561
Long-term debt	186,000	186,000	186,000
Deferred income taxes	112,171	114,341	113,355
Other long-term liabilities	108,993	100,054	103,612
Total liabilities	\$680,814	\$644,630	\$568,528
Commitments and contingencies			
Stockholders' equity:			
Preferred stock; par value \$.01 per share; 100,000 shares authorized; none issued or outstanding at June 29, 2013, December 29, 2012, and June 30, 2012, respectively	—	—	—
Common stock, voting; par value \$.01 per share; 150,000,000 shares authorized; 59,353,894, 59,126,639, and 58,989,420 shares issued and outstanding at June 29, 2013, December 29, 2012, and June 30, 2012, respectively	594	591	590
Additional paid-in capital	238,167	250,276	240,427
Accumulated other comprehensive loss	(15,207)	(11,205)	(11,427)
Retained earnings	797,383	745,817	637,747
Total stockholders' equity	1,020,937	985,479	867,337
Total liabilities and stockholders' equity	\$1,701,751	\$1,630,109	\$1,435,865

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	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	\$517,874	\$472,162	\$1,108,883	\$1,023,824
Cost of goods sold	297,629	288,919	645,576	645,842
Gross profit	220,245	183,243	463,307	377,982
Selling, general, and administrative expenses	195,014	156,290	380,375	305,995
Royalty income	(7,507)	) (7,474	) (16,749	) (16,240
Operating income	32,738	34,427	99,681	88,227
Interest expense, net	1,060	1,666	2,163	3,623
Other expense (income), net	531	(135	) 1,104	171
Income before income taxes	31,147	32,896	96,414	84,433
Provision for income taxes	11,474	12,091	35,326	31,353
Net income	\$19,673	\$20,805	\$61,088	\$53,080
Basic net income per common share	\$0.33	\$0.35	\$1.03	\$0.90
Diluted net income per common share	\$0.33	\$0.35	\$1.02	\$0.89
Dividend declared and paid per common share	\$0.16	\$—	\$0.16	\$—

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	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income	\$ 19,673	\$ 20,805	\$ 61,088	\$ 53,080
Other comprehensive loss:				
Foreign currency translation adjustments	(2,537	) (1,340	) (4,002	) (145
Comprehensive income	\$ 17,136	\$ 19,465	\$ 57,086	\$ 52,935

See accompanying notes to the unaudited condensed consolidated financial statements.

CARTER'S, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands)

(unaudited)

	Common stock - shares	Common stock - \$	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings	Total stockholders' equity	
Balance at December 29, 2012	59,126,639	\$ 591	\$ 250,276	\$(11,205	) \$ 745,817	\$ 985,479
Income tax benefit from stock-based compensation	—	—	9,929	—	—	9,929	
Exercise of stock options	605,350	6	11,204	—	—	11,210	
Withholdings from vesting of restricted stock	(95,873) (1) (4,539) —	—	(4,540)
Restricted stock activity	291,607	3	(3) —	—	—	
Stock-based compensation expense	—	—	7,972	—	—	7,972	
Issuance of common stock	16,173	—	1,080	—	—	1,080	
Repurchase of common stock	(590,002) (5) (37,752) —	—	(37,757)
Cash dividends declared and paid	—	—	—	—	(9,522) (9,522)
Comprehensive income	—	—	—	(4,002	) 61,088	57,086
Balance at June 29, 2013	59,353,894	\$ 594	\$ 238,167	\$(15,207	) \$ 797,383	\$ 1,020,937

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	
	June 29, 2013	June 30, 2012
Cash flows from operating activities:		
Net income	\$61,088	\$53,080
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,936	17,793
Revaluation of contingent consideration	1,866	1,779
Amortization of debt issuance costs	392	354
Stock-based compensation expense	8,425	6,351
Income tax benefit from stock-based compensation	(9,929)	(1,834)
Loss on disposal of property, plant, and equipment	112	517
Deferred income taxes	557	554
Effect of changes in operating assets and liabilities:		
Accounts receivable	34,519	25,887
Inventories	(81,361)	(30,705)
Prepaid expenses and other assets	(28,136)	(8,921)
Accounts payable and other liabilities	56,371	25,084
Net cash provided by operating activities	69,840	89,939
Cash flows from investing activities:		
Capital expenditures	(70,566)	(37,711)
Acquisition of tradenames	(38,007)	—
Proceeds from sale of property, plant, and equipment	—	6
Net cash used in investing activities	(108,573)	(37,705)
Cash flows from financing activities:		
Borrowings under revolving credit facility	—	2,500
Payments on revolving credit facility	—	(52,500)
Repurchase of common stock	(37,757)	—
Dividends paid	(9,522)	—
Income tax benefit from stock-based compensation	9,929	1,834
Withholdings from vesting of restricted stock	(4,539)	(2,408)
Proceeds from exercise of stock options	11,210	2,481
Net cash used in financing activities	(30,679)	(48,093)
Effect of exchange rate changes on cash	(692)	(6)
Net (decrease) increase in cash and cash equivalents	(70,104)	4,135
Cash and cash equivalents, beginning of period	382,236	233,494
Cash and cash equivalents, end of period	\$312,132	\$237,629

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" and "its") design, source, and market branded childrenswear under the Carter's, Child of Mine, Just One You, Precious Firsts, OshKosh, and other brands. The Company's products are sourced through contractual arrangements with manufacturers worldwide for wholesale distribution to major domestic and international retailers and for its 438 Carter's, 164 OshKosh, and 107 international retail stores that market its 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 the opinion of management, the Company's accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair statement of its financial position as of June 29, 2013, the results of operations and comprehensive income for the fiscal quarter and the two fiscal quarters ended June 29, 2013 and June 30, 2012, its cash flows for the two fiscal quarters ended June 29, 2013 and June 30, 2012, and its changes in stockholders' equity for the two fiscal quarters ended June 29, 2013. Except as otherwise disclosed, all such adjustments consist only of those of a normal recurring nature. Operating results for the fiscal quarter and two fiscal quarters ended June 29, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2013.

The accompanying condensed consolidated balance sheet as of December 29, 2012 is derived from the Company's audited consolidated financial statements included in its most recently filed Annual Report on Form 10-K. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("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 the Company follows are set forth in its most recently filed Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

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

NOTE 3 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss consisted of the following:

(dollars in thousands)	June 29, 2013	December 29, 2012	June 30, 2012
Cumulative foreign currency translation adjustments	\$(6,068	) \$(2,066	) \$(3,269
Pension and post-retirement liability adjustment	(9,139	) (9,139	) (8,158
Total accumulated other comprehensive loss	\$(15,207	) \$(11,205	) \$(11,427

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

Acquisition of Tradenames

On June 13, 2013, the Company acquired worldwide rights to the Carter's Watch the Wear and H.W. Carter & Sons brands, including trademark registrations. The Company acquired these worldwide rights for defensive purposes to reduce brand confusion and facilitate expansion in certain key international markets. The total consideration paid was approximately \$38.0 million in cash and was accounted for as an asset acquisition. These tradenames are being amortized over three years, using an accelerated amortization method. The estimated future amortization expense for these assets is approximately \$12.5 million for the remainder of fiscal 2013, \$16.4 million for fiscal 2014, \$6.2 million for fiscal 2015, and \$1.7 million for fiscal 2016.

Balance Sheet Components

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

(dollars in thousands)	Weighted-average useful life	June 29, 2013			December 29, 2012		
		Gross amount	Accumulated amortization	Net amount	Gross amount	Accumulated amortization	Net amount
Carter's goodwill	Indefinite	\$136,570	\$—	\$136,570	\$136,570	\$—	\$136,570
Bonnie Togs goodwill	Indefinite	\$50,387	\$—	\$50,387	\$53,179	\$—	\$53,179
Total goodwill		\$186,957	\$—	\$186,957	\$189,749	\$—	\$189,749
Carter's tradename	Indefinite	\$220,233	\$—	\$220,233	\$220,233	\$—	\$220,233
OshKosh tradename	Indefinite	\$85,500	\$—	\$85,500	\$85,500	\$—	\$85,500
Other tradenames	3 years	\$38,007	\$1,000	\$37,007	\$—	\$—	\$—
Bonnie Togs tradename	2 years	\$572	\$572	\$—	\$604	\$453	\$151
Total tradenames		\$344,312	\$1,572	\$342,740	\$306,337	\$453	\$305,884
Non-compete agreements	4 years	\$285	\$142	\$143	\$301	\$113	\$188
Total tradenames and other intangibles, net		\$344,597	\$1,714	\$342,883	\$306,638	\$566	\$306,072

(dollars in thousands)	Weighted-average useful life	June 30, 2012		
		Gross amount	Accumulated amortization	Net amount
Carter's goodwill	Indefinite	\$136,570	\$—	\$136,570
Bonnie Togs goodwill	Indefinite	\$52,051	\$—	\$52,051
Total goodwill		\$188,621	\$—	\$188,621
Carter's tradename	Indefinite	\$220,233	\$—	\$220,233
OshKosh tradename	Indefinite	\$85,500	\$—	\$85,500
Bonnie Togs tradename	2 years	\$589	\$294	\$295
Total tradenames		\$306,322	\$294	\$306,028
Non-compete agreements	4 years	\$295	\$74	\$221
Total tradenames and other intangibles, net		\$306,617	\$368	\$306,249

NOTE 5 – COMMON STOCK:

Share Repurchases

In the second quarter of fiscal 2013, the Company's Board of Directors approved a \$300 million share repurchase authorization, including amounts remaining under the previous authorizations. During the fiscal quarter and two fiscal quarters ended June

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

29, 2013, the Company repurchased and retired shares in the following amounts:

	Number of shares repurchased	Aggregate cost of shares repurchased (in millions)	Average price per share
Shares repurchased and retired in Q1 2013	156,600	\$ 8.9	\$ 57.10
Shares repurchased and retired in Q2 2013	433,402	\$ 28.8	\$ 66.49
Shares repurchased and retired through June 29, 2013	590,002	\$ 37.8	\$ 63.99

The total capacity under the repurchase authorization as of June 29, 2013, was approximately \$283.6 million. The authorization has no expiration date.

The Company did not purchase any shares of its common stock during the first two fiscal quarters ended June 30, 2012.

Dividend

In the second fiscal quarter of 2013, the Company's Board of Directors authorized a quarterly cash dividend of \$0.16 per share paid on June 14, 2013, for shareholders of record at the close of business on May 31, 2013. Future declarations of quarterly dividends and the establishment of future record and payment dates are at the discretion of the Company's Board of Directors based on a number of factors, including the Company's future financial performance and other investment priorities.

Provisions in the Company's senior credit facility currently require the Company to continue to maintain a lease adjusted leverage ratio of less than or equal to 3.50:1.00 and availability under the facility of at least \$50 million (as well as to not have any defaults) in order to pay dividends or repurchase common stock. These requirements could have the effect of restricting the Company's ability to pay future cash dividends on or make future repurchases of its common stock.

NOTE 6 – LONG-TERM DEBT

At June 29, 2013, the Company had approximately \$186.0 million in revolver borrowings, exclusive of \$15.3 million of outstanding letters of credit, at an effective interest rate of 1.70%. Amounts outstanding under the revolving credit facility currently accrue interest at a LIBOR rate plus 1.50%. As of June 29, 2013, there was approximately \$174.0 million available for future borrowing.

As of June 29, 2013, the Company was in compliance with its financial debt covenants.

NOTE 7 – STOCK-BASED COMPENSATION

The Company recorded stock-based compensation cost as follows:

(dollars in thousands)	Fiscal quarters ended		Two fiscal quarters ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Stock options	\$ 1,233	\$ 1,112	\$ 2,508	\$ 2,043
Restricted stock:				

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Time-based awards	1,791	1,439	3,482	2,593
Performance-based awards	1,156	662	1,982	1,070
Stock awards	180	270	453	645
Total	\$4,360	\$3,483	\$8,425	\$6,351

All of the cost was reflected as a component of selling, general, and administrative expenses.

STOCK OPTIONS

The following table summarizes the Company's stock option activity for the two fiscal quarters ended June 29, 2013:

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Number of shares	Weighted- average exercise price	Weighted-average remaining contractual terms (years)	Aggregate intrinsic value (in thousands)
Outstanding, December 29, 2012	2,078,433	\$26.14		
Granted	338,600	\$59.47		
Exercised	(605,350)	) \$18.52		
Forfeited	(27,400)	) \$33.52		
Expired	—	—		
Outstanding, June 29, 2013	1,784,283	\$34.94	7.40	\$69,817
Vested and Expected to Vest, June 29, 2013	1,719,751	\$34.57	7.35	\$67,934
Exercisable, June 29, 2013	871,319	\$25.04	6.11	\$42,718

The intrinsic value of stock options exercised during the two fiscal quarters ended June 29, 2013 and June 30, 2012 was approximately \$27.2 million and \$3.2 million, respectively. At June 29, 2013, there was approximately \$11.4 million of unrecognized compensation cost (net of estimated forfeitures) related to stock options which is expected to be recognized over a weighted-average period of approximately 2.9 years.

The table below presents the assumptions used to calculate the fair value of options granted:

	Two fiscal quarters ended		
	June 29, 2013	June 30, 2012	
Expected volatility	33.17	% 34.82	%
Risk-free interest rate	1.12	% 1.38	%
Expected term (years)	6.0	5.9	
Dividend yield	—	% —	%
Weighted average fair value of options granted	\$20.15	\$15.11	

RESTRICTED STOCK AWARDS

The following table summarizes activity related to all restricted stock awards during the two fiscal quarters ended June 29, 2013:

	Restricted stock awards	Weighted-average grant-date fair value
Outstanding, December 29, 2012	766,929	\$33.97
Granted	313,773	\$59.76
Vested	(213,152)	) \$31.36
Forfeited	(13,575)	) \$33.57
Outstanding, June 29, 2013	853,975	\$44.10

Time-based Restricted Stock Awards

At June 29, 2013, there was approximately \$17.0 million of unrecognized compensation cost (net of estimated forfeitures) related to restricted stock which is expected to be recognized over a weighted-average period of approximately 2.9 years.

Performance-based Restricted Stock Awards

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

During the first fiscal quarter of 2012, the Company granted its executive officers an aggregate of 152,000 performance-based restricted shares at a fair market value of \$42.61 per share. During the first fiscal quarter of 2013, the Company granted its executive officers an aggregate of 118,200 performance-based restricted shares at a fair market value of \$59.27 per share.

Vesting of these shares is contingent upon meeting specific performance targets through 2014 (in the case of the fiscal 2012 awards) or 2015 (in the case of the fiscal 2013 awards). Currently, the Company believes that the respective targets will be achieved and has recorded compensation expense based on the proration of the total ultimate expected value of the award.

At June 29, 2013, there was approximately \$11.1 million of unrecognized compensation cost (net of estimated forfeitures) related to performance-based restricted stock awards which is expected to be recognized over a weighted-average period of approximately 2.5 years.

NOTE 8 – EMPLOYEE BENEFIT PLANS

OSHKOSH B'GOSH PENSION PLAN

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

(dollars in thousands)	Fiscal quarters ended		Two fiscal quarters ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Interest cost	\$584	\$597	\$1,168	\$1,194
Expected return on plan assets	(764	) (713	) (1,528	) (1,426
Recognized actuarial loss	207	178	414	355
Net periodic pension cost	\$27	\$62	\$54	\$123

POST-RETIREMENT LIFE AND MEDICAL PLAN

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

(dollars in thousands)	Fiscal quarters ended		Two fiscal quarters ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Service cost – benefits attributed to service during the period	\$40	\$17	\$80	\$34
Interest cost on accumulated post-retirement benefit obligation	58	53	116	106
Amortization net actuarial gain	(34	) (18	) (68	) (36
Total net periodic post-retirement benefit cost	\$64	\$52	\$128	\$104

NOTE 9 – INCOME TAXES

As of June 29, 2013, the Company had gross unrecognized tax benefits of approximately \$10.6 million, of which \$7.4 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 could accelerate the payment of cash to the taxing authorities.

Included in the reserves for unrecognized tax benefits are approximately \$1.5 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 2013 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 the fiscal quarter and two fiscal quarters ended June 29, 2013 and June 30, 2012, interest expense recorded on uncertain tax positions was not significant. The Company had

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

approximately \$0.8 million, \$0.7 million, and \$0.7 million of interest accrued on uncertain tax positions as of June 29, 2013, December 29, 2012, and June 30, 2012, respectively.

NOTE 10 – FAIR VALUE MEASUREMENTS

INVESTMENTS

In fiscal 2012, the Company began investing in marketable securities, principally equity based mutual funds, to mitigate the risk associated with the investment return on employee deferrals of compensation. The Company had approximately \$4.5 million and \$3.2 million of such Level 1 investments as of June 29, 2013 and December 29, 2012, respectively. There were no such investments as of June 30, 2012.

All of the marketable securities purchased were included in other assets in the accompanying unaudited condensed consolidated balance sheets. During the fiscal quarter and two fiscal quarters ended June 29, 2013, gains on the investments in marketable securities were not significant.

CONTINGENT CONSIDERATION

The following table summarizes the changes in the contingent consideration liability related to the Company's acquisition of Bonnie Togs on June 30, 2011:

(dollars in thousands)	Fiscal quarters ended		Two fiscal quarters ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Balance at beginning of period	\$30,021	26,767	\$29,704	\$25,566
Accretion expense	979	1,088	1,866	1,779
Foreign currency translation adjustment	(1,050	) (550	) (1,620	) (40
Balance at end of period	\$29,950	27,305	\$29,950	\$27,305

The contingent consideration liability is a Level 3 fair value measurement. As of June 29, 2013, the Company determined the fair value of contingent consideration based upon a probability-weighted discounted cash flow analysis, reflecting a high probability that the earnings targets will be met and a discount rate of 18%.

OTHER

As of June 30, 2012, the Company had contracts for the purchase of \$8.0 million of U.S. dollars at fixed rates. The Level 1 fair value of these forward contracts was an asset of \$0.1 million. During the fiscal quarter and two fiscal quarters ended June 30, 2012, the Company recorded a gain on the mark-to-market of foreign currency exchange contracts of approximately \$0.1 million and a loss of approximately \$0.5 million, respectively, on these contracts.

The Company did not enter into any foreign exchange forward contracts during the two fiscal quarters ended June 29, 2013 and there were no such contracts outstanding at June 29, 2013.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 11 – EARNINGS PER SHARE

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

	Fiscal quarters ended		Two fiscal quarters ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Weighted-average number of common and common equivalent shares outstanding:				
Basic number of common shares outstanding	58,567,558	58,200,702	58,519,286	58,128,989
Dilutive effect of equity awards	588,622	676,321	648,072	645,174
Diluted number of common and common equivalent shares outstanding	59,156,180	58,877,023	59,167,358	58,774,163
Basic net income per common share:				
Net income	\$ 19,673,000	\$ 20,805,000	\$ 61,088,000	\$ 53,080,000
Income allocated to participating securities	(265,000)	(271,000)	(811,000)	(651,000)
Net income available to common shareholders	\$ 19,408,000	\$ 20,534,000	\$ 60,277,000	\$ 52,429,000
Basic net income per common share	\$0.33	\$0.35	\$1.03	\$0.90
Diluted net income per common share:				
Net income	\$ 19,673,000	\$ 20,805,000	\$ 61,088,000	\$ 53,080,000
Income allocated to participating securities	(263,000			