Hanesbrands Inc.
Form 10-Q
October 31, 2013
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## 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 September 28, 2013
or

## TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

 OF 1934For the transition period from to
Commission file number: 001-32891

Hanesbrands Inc.
(Exact name of registrant as specified in its charter)

Maryland
(State of incorporation)

Winston-Salem, North Carolina
(Address of principal executive office)
(336) 519-8080
(Registrant's telephone number including area code)

20-3552316
(I.R.S. employer
identification no.)

27105
(Zip 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 the definitions 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 ". (Do not check if a smaller reporting company) 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
As of October 25, 2013, there were $99,109,326$ shares of the registrant's common stock outstanding.

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Trademarks, Trade Names and Service MarksWe own or have rights to use the trademarks, service marks and trade names that we use in conjunction with theoperation of our business. Some of the more important trademarks that we own or have rights to use that may appearin this Quarterly Report on Form 10-Q include the Hanes, Champion, C9 by Champion, Bali, Playtex, Just My Size,L'eggs, barely there, Wonderbra, Gear for Sports, Zorba, Sol y Oro and Rinbros marks, which may be registered in theUnited States and other jurisdictions. We do not own any trademark, trade name or service mark of any othercompany appearing in this Quarterly Report on Form 10-Q.

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as "may," "believe," "will," "expect," "project," "estimate," "intend," "anticipate," "plan," "continue" or similar expressi particular, statements under the heading "Outlook" and other information appearing under "Management's Discussion and Analysis of Financial Condition and Results of Operations" include forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements.
Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. Risks and uncertainties that could cause actual results or events to differ materially from those anticipated include risks associated with our ability to realize the benefits anticipated from the Maidenform Brands, Inc. acquisition, as well as the other risks disclosed in our reports filed with the Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the year ended December 29, 2012, under the caption "Risk Factors," as well in the "Investors" section of our corporate website, www.Hanes.com/investors. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 29, 2012, particularly under the caption "Risk Factors." We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read our SEC filings over the Internet at the SEC's website at www.sec.gov. To receive copies of public records not posted to the SEC's web site at prescribed rates, you may complete an online form at www.sec.gov, send a fax to (202) 772 -9337 or submit a written request to the SEC, Office of FOIA/PA Operations, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information.

We make available free of charge at www.Hanes.com/investors (in the "Investors" section) copies of materials we file with, or furnish to, the SEC. By referring to our corporate website, www.Hanes.com/corporate, or any of our other websites, we do not incorporate any such website or its contents into this Quarterly Report on Form 10-Q.

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## PART I

Item 1. Financial Statements
HANESBRANDS INC.
Condensed Consolidated Statements of Income (in thousands, except per share amounts)
(unaudited)

|  | Quarter Ended <br> September 28, 2013 | Nine Months Ended |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  |  | $\begin{aligned} & \text { September } 29, \\ & 2012 \end{aligned}$ | $\begin{aligned} & \text { September 28, } \\ & 2013 \end{aligned}$ | $\begin{aligned} & \text { September 29, } \\ & 2012 \end{aligned}$ |
| Net sales | \$1,197,346 | \$1,218,681 | \$3,342,012 | \$3,372,465 |
| Cost of sales | 775,666 | 818,751 | 2,157,551 | 2,350,489 |
| Gross profit | 421,680 | 399,930 | 1,184,461 | 1,021,976 |
| Selling, general and administrative expenses | 244,782 | 243,422 | 740,973 | 734,872 |
| Operating profit | 176,898 | 156,508 | 443,488 | 287,104 |
| Other expenses | 795 | 3,373 | 2,010 | 4,829 |
| Interest expense, net | 25,002 | 32,897 | 75,846 | 106,503 |
| Income from continuing operations before income tax expense | 151,101 | 120,238 | 365,632 | 175,772 |
| Income tax expense | 25,838 | 9,055 | 67,404 | 21,544 |
| Income from continuing operations | 125,263 | 111,183 | 298,228 | 154,228 |
| Loss from discontinued operations, net of tax | - | (1,291 | ) - | (69,935 ) |
| Net income | \$125,263 | \$109,892 | \$298,228 | \$84,293 |
| Earnings per share - basic: |  |  |  |  |
| Continuing operations | \$1.25 | \$1.13 | \$2.99 | \$ 1.56 |
| Discontinued operations | - | (0.01 | ) - | (0.71 ) |
| Net income | \$1.25 | \$1.11 | \$2.99 | \$0.85 |
| Earnings per share - diluted: |  |  |  |  |
| Continuing operations | \$1.23 | \$1.11 | \$2.93 | \$ 1.54 |
| Discontinued operations | - | (0.01 | ) - | (0.70 ) |
| Net income | \$1.23 | \$1.09 | \$2.93 | \$0.84 |

See accompanying notes to Condensed Consolidated Financial Statements.
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HANESBRANDS INC.
Condensed Consolidated Statements of Comprehensive Income (in thousands)
(unaudited)

|  | Quarter Ended September 28, 2013 | Nine Months Ended |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  |  | $\text { September } 29,$ | $\begin{aligned} & \text { September 28, } \\ & 2013 \end{aligned}$ | $\begin{aligned} & \text { September 29, } \\ & 2012 \end{aligned}$ |
| Net income | \$125,263 | \$ 109,892 | \$298,228 | \$84,293 |
| Other comprehensive income (loss), net of tax of $\$ 1,342, \$ 1,581, \$ 5,013$ and $\$ 4,357$, respectively | 1,062 | 4,881 | (842 | ) 8,196 |
| Comprehensive income | \$126,325 | \$114,773 | \$297,386 | \$92,489 |

See accompanying notes to Condensed Consolidated Financial Statements.
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HANESBRANDS INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)
(unaudited)

## Assets

Cash and cash equivalents
September 28, December 29, 20132012

Trade accounts receivable, net
\$132,320 \$42,796

Inventories
Deferred tax assets
Other current assets
Total current assets

Property, net
585,710 506,278
1,313,971 1,253,136
168,338 166,189
56,714 59,126
2,257,053 2,027,525

Trademarks and other identifiable intangibles, net
Goodwill
Deferred tax assets
566,776 596,158

Other noncurrent assets
Total assets
111,839 120,114

Liabilities and Stockholders' Equity

| Accounts payable | $\$ 440,357$ | $\$ 403,644$ |
| :--- | :--- | :--- |
| Accrued liabilities | 301,505 | 271,972 |
| Notes payable | 5,209 | 26,216 |
| Accounts Receivable Securitization Facility | 166,614 | 173,836 |
| Total current liabilities | 913,685 | 875,668 |
| Long-term debt | $1,250,000$ | $1,317,500$ |
| Pension and postretirement benefits | 404,554 | 446,267 |
| Other noncurrent liabilities | 114,674 | 105,399 |
| Total liabilities | $2,682,913$ | $2,744,834$ |

Stockholders' equity:
Preferred stock (50,000,000 authorized shares; \$.01 par value)
Issued and outstanding - None
Common stock (500,000,000 authorized shares; \$.01 par value)
Issued and outstanding - 99,109,326 and 98,269,868, respectively 991
Additional paid-in capital
300,223 292,029
Retained earnings
Accumulated other comprehensive loss
1,169,345 911,467
Total stockholders' equity
Total liabilities and stockholders' equity
1,152,104 886,866
$\$ 3,835,017 \quad \$ 3,631,700$

See accompanying notes to Condensed Consolidated Financial Statements. 4

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HANESBRANDS INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

Operating activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Depreciation and amortization of long-lived assets
Impairment of intangibles
Loss on disposition of business
Amortization of debt issuance costs
Stock compensation expense
Deferred taxes and other
Changes in assets and liabilities, net of disposition of business:
Accounts receivable
Inventories
Other assets
Accounts payable
Accrued liabilities and other
Net cash provided by operating activities
Investing activities:
Capital expenditures
Proceeds from sales of assets
Disposition of business
Net cash used in investing activities
Financing activities:
Borrowings on notes payable
Repayments on notes payable
Borrowings on Accounts Receivable Securitization Facility
Repayments on Accounts Receivable Securitization Facility
Borrowings on Revolving Loan Facility
Repayments on Revolving Loan Facility
Redemption of Floating Rate Senior Notes
Cash dividends paid
Proceeds from stock options exercised
Taxes paid related to net shares settlement of equity awards
Excess tax benefit from stock-based compensation
Other
Net cash used in financing activities
Effect of changes in foreign exchange rates on cash
Increase in cash and cash equivalents
Cash and cash equivalents at beginning of year
Cash and cash equivalents at end of period

Nine Months Ended
September 28, September 29, 20132012
\$298,228 \$84,293
67,201 70,096

- 37,425
- 31,811

5,160 7,077
7,742 6,722
$541 \quad(8,856$
(85,145 ) (122,929 )
(68,389) 230,427
(5,626 ) 12,702
42,718 (18,503 )
(5,445 ) (20,860 )
256,985 309,405
$\left.\begin{array}{lll}(30,721 & )(29,475 & ) \\ 5,896 & 313 \\ - & 12,708 & \\ (24,825 & ) & (16,454\end{array}\right)$

| 68,333 | 43,251 |  |
| :--- | :--- | :--- |
| $(89,168$ | $)$ | $(55,645$ |
| 100,731 | 156,817 |  |
| $(107,953$ | $)$ | $(129,775$ |
| $2,629,000$ | $2,177,000$ | $)$ |
| $(2,696,500$ | $)$ | $(2,191,500$ |
| - | $(148,092$ | $)$ |
| $(39,615$ | $)$ | - |
| 5,279 | 4,103 |  |
| $(24,832$ | - |  |
| 18,220 | 491 |  |
| $(4,914$ | $)$ | $(2,839$ |
| $(141,419$ | $)$ | $(146,189$ |
| $(1,217$ | $)$ | 162 |
| 89,524 | 146,924 |  |
| 42,796 | 35,345 |  |
| $\$ 132,320$ | $\$ 182,269$ |  |

See accompanying notes to Condensed Consolidated Financial Statements.
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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements (dollars and shares in thousands, except per share data) (unaudited)

## (1) Basis of Presentation

These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management believes that the disclosures made are adequate for a fair statement of the results of operations, financial condition and cash flows of Hanesbrands Inc., a Maryland corporation, and its consolidated subsidiaries (the "Company" or "Hanesbrands"). In the opinion of management, the condensed consolidated interim financial statements reflect all adjustments, which consist only of normal recurring adjustments, necessary to state fairly the results of operations, financial condition and cash flows for the interim periods presented herein. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates.
These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.
In May 2012, the Company sold its European imagewear business and completed the discontinuation of its private-label and Outer Banks domestic imagewear operations which served wholesalers that sell to the screen-print industry. As a result of these actions, the prior-year disclosures reflect these operations as discontinued operations.
(2) Recent Accounting Pronouncements

Presentation of Comprehensive Income
In February 2013, the Financial Accounting Standards Board (the "FASB") issued a final rule related to the reporting of amounts reclassified out of accumulated other comprehensive income that requires entities to report, either on their income statement or in a footnote to their financial statements, the effects on earnings from items that are reclassified out of other comprehensive income. The new accounting rules were effective for the Company in the first quarter of 2013. The adoption of the new accounting rules did not have a material effect on the Company's financial condition, results of operations or cash flows.
Disclosures About Offsetting Assets and Liabilities
In December 2011, the FASB issued new accounting rules related to new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new rules are effective for the Company in the first quarter of 2014 with retrospective application required. The Company does not expect the adoption of the new accounting rules to have a material effect on the Company's financial condition, results of operations or cash flows.

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
(3) Earnings Per Share

Basic earnings per share ("EPS") was computed by dividing net income by the number of weighted average shares of common stock outstanding. Diluted EPS was calculated to give effect to all potentially dilutive shares of common stock using the treasury stock method. The reconciliation of basic to diluted weighted average shares outstanding is as follows:

|  | Quarter Ended <br> September 28, | September 29, |  | Nine Months Ended <br> September 28, |
| :--- | :--- | :--- | :--- | :--- |
|  | 2013 | 2012 | September 29, |  |
|  |  | 2013 | 2012 |  |
| Basic weighted average shares outstanding | 100,066 | 98,707 | 99,764 | 98,611 |
| Effect of potentially dilutive securities: |  |  |  |  |
| Stock options | 1,259 | 1,366 | 1,484 | 1,192 |
| Restricted stock units | 661 | 398 | 675 | 327 |
| Employee stock purchase plan and other | 1 | 1 | - | 1 |
| Diluted weighted average shares outstanding | 101,987 | 100,472 | 101,923 | 100,131 |

For the quarters ended September 28, 2013 and September 29, 2012, 14 and 0 restricted stock units, respectively, were excluded from the diluted earnings per share calculation, and for the nine months ended September 28, 2013 and September 29, 2012, 14 and 11 restricted stock units, respectively, were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive. For the nine months ended September 29, 2012, options to purchase 1 share of common stock was excluded from the diluted earnings per share calculation because its effect would have been anti-dilutive.
(4)Inventories

Inventories consisted of the following:

Raw materials
Work in process
Finished goods

| September 28, | December 29, |
| :--- | :--- |
| 2013 | 2012 |
| $\$ 180,092$ | $\$ 167,883$ |
| 131,549 | 143,713 |
| $1,002,330$ | 941,540 |
| $\$ 1,313,971$ | $\$ 1,253,136$ |

(5) Debt

Debt consisted of the following:

Revolving Loan Facility
$6.375 \%$ Senior Notes
8\% Senior Notes
Accounts Receivable Securitization Facility
Less current maturities

| Interest <br> Rate as of | Principal Amount |  |  |
| :--- | :--- | :--- | :--- |
| September | September 28, | December 29, | Maturity Date |
| 28,2013 | 2013 | 2012 |  |
| - | $\$-$ | $\$ 67,500$ | July 2018 |
| $6.38 \%$ | $1,000,000$ | $1,000,000$ | December 2020 |
| $8.00 \%$ | 250,000 | 250,000 | December 2016 |
| $1.24 \%$ | 166,614 | 173,836 | March 2014 |
|  | $1,416,614$ | $1,491,336$ |  |
|  | 166,614 | 173,836 |  |
|  | $\$ 1,250,000$ | $\$ 1,317,500$ |  |

As of September 28, 2013, the Company had $\$ 1,091,547$ of borrowing availability under the $\$ 1,100,000$ revolving credit facility (the "Revolving Loan Facility") under the senior secured credit facility after taking into account outstanding borrowings and $\$ 8,453$ of standby and trade letters of credit issued and outstanding under this facility.

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
In July 2013, the Company amended the Revolving Loan Facility to increase the borrowing limit to $\$ 1,100,000$, decrease borrowing costs by 25 basis points and extend the maturity date to (i) July 2018 or (ii) September 2016 if the Company's $8 \%$ Senior Notes have not been refinanced or repaid or the maturity date thereof has note otherwise been extended beyond July 2018 by September 2016.
In March 2013, the Company amended the accounts receivable securitization facility that it entered into in November 2007 (the "Accounts Receivable Securitization Facility"). This amendment decreased certain fee rates and extended the termination date to March 2014.
As of September 28, 2013, the Company was in compliance with all financial covenants under its credit facilities.
(6) Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss ("AOCI") are as follows:
Balance at December 29, $2012 \quad \$(8,340 \quad \$ 853 \quad \$(512,558) \$ 202,432 \quad \$(317,613)$

Amounts reclassified from accumulated other comprehensive -
) $11,561 \quad(4,532) 7,016$
loss
Current-period other
comprehensive income (loss) (8,488 ) 1,111 - (481 ) (7,858 ) activity
Balance at September 28, $2013 \quad \$(16,828 \quad$ ) $\$ 1,951 \quad \$(500,997 \quad) \$ 197,419 \quad \$(318,455)$ The Company had the following reclassifications out of Accumulated other comprehensive loss:


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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
(7) Financial Instruments and Risk Management

The Company uses forward foreign exchange contracts to manage its exposures to movements in foreign exchange rates. As of September 28, 2013, the notional U.S. dollar equivalent of commitments to sell and purchase foreign currencies within the Company's derivative portfolio was $\$ 81,337$ and $\$ 8,414$ respectively, primarily consisting of contracts hedging exposures to the Mexican peso, Canadian dollar, Australian dollar, Brazilian real and Japanese yen. Fair Values of Derivative Instruments
The fair values of derivative financial instruments recognized in the Condensed Consolidated Balance Sheets of the Company were as follows:


Cash Flow Hedges
The Company uses forward foreign exchange contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated transactions, foreign currency-denominated investments, and other known foreign currency exposures. Gains and losses on these contracts are intended to offset losses and gains on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. The Company expects to reclassify into earnings during the next 12 months a net loss from Accumulated other comprehensive loss of approximately $\$ 1,247$.
The changes in fair value of derivatives excluded from the Company's effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in the "Selling, general and administrative expenses" line in the Condensed Consolidated Statements of Income.
The effect of cash flow hedge derivative instruments on the Condensed Consolidated Statements of Income and Accumulated other comprehensive loss is as follows:

|  | Amount of | Amount of |
| :--- | :--- | :--- |
| Gain (Loss) | Gain (Loss) |  |
|  | Recognized in | Recognized in |
|  | Accumulated Other | Accumulated Other |
| Comprehensive Loss | Comprehensive Loss |  |
| (Effective Portion) | (Effective Portion) |  |
| Foreign exchange contracts | Quarter Ended | Nine Months Ended |
| September 28,September 29, September 28,September 29, |  |  |
|  | 2013 | 2012 |

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)

|  |  | Amount of <br> Gain (Loss) | Amount of <br> Gain (Loss) |
| :--- | :--- | :--- | :--- | :--- |
|  | Location of | Reclassified from | Reclassified from |

Derivative Contracts Not Designated As Hedges
The Company uses foreign exchange derivative contracts as economic hedges against the impact of foreign exchange fluctuations on anticipated intercompany purchase and lending transactions denominated in foreign currencies. Gains or losses on these contracts largely offset the net remeasurement gains or losses on the related assets and liabilities. The effect of derivative contracts not designated as hedges on the Condensed Consolidated Statements of Income is as follows:

Foreign exchange contracts

| Location of Loss <br> Recognized in Income on <br> Derivative | Amount of Gain (Loss)Recognized in Income |  |  | Amount of Gain (Loss) |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | Recognized in Income |  |
|  | Recognized in Income |  |  | Nine Months Ended |  |
|  | Septem | 28,Septem |  | Sept | Septem |
|  | 2013 | 2012 |  | 2013 | 2012 |
| Selling, general and administrative expenses | \$(502 | ) \$ (1,891 | ) | \$61 | \$ (3,952 |

(8)Fair Value of Assets and Liabilities

Fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability. A three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, is utilized for disclosing the fair value of the Company's assets and liabilities. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.
As of September 28, 2013, the Company held certain financial assets and liabilities related to foreign exchange derivative contracts that are required to be measured at fair value on a recurring basis. The fair values of foreign currency derivatives are determined using the cash flows of the foreign exchange contract, discount rates to account for the passage of time and current foreign exchange market data and are categorized as Level 2. The Company's defined benefit pension plan investments are not required to be measured at fair value on a recurring basis. There were no changes during the quarter ended September 28, 2013 to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis. There were no transfers between the three level categories and there were no Level 3 assets or liabilities measured on a quarterly basis during the quarter ended September 28, 2013. As of and during the quarter and nine months ended September 28, 2013, the Company did not have any non-financial assets or liabilities that were required to be measured at fair value on a recurring or non-recurring basis.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities accounted for at fair value on a recurring basis.

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data) (unaudited)

Foreign exchange derivative contracts Foreign exchange derivative contracts Total

Assets (Liabilities) at Fair Value as of September 28, 2013
Quoted Prices InSignificant

| Active Markets | Other | Signif |
| :--- | :--- | :--- |
| for Identical | Observable | Unobs |
| Assets | Inputs | Inputs |
| (Level 1) | (Level 2) | (Leve |
| $\$-$ | $\$ 1,095$ | $\$-$ |
| - | $(434$ | ) |
| $\$-$ | $\$ 661$ | $\$-$ |


| Assets (Liabilities) at Fair Value as of |  |  |
| :--- | :--- | :--- |
| December 29, 2012 |  |  |
| Quoted Prices InSignificant |  |  |
| Qctive Markets | Other | Significant |
| for Identical | Observable | Unobservable |
| Assets | Inputs | Inputs |
| (Level 1) | (Level 2) | (Level 3) |
| $\$-$ | $\$ 1,088$ | $\$-$ |
| - | $(268$ | ) |
| \$- | $\$ 820$ | $\$-$ |

Fair Value of Financial Instruments
The carrying amounts of cash and cash equivalents, trade accounts receivable, notes receivable and accounts payable approximated fair value as of September 28, 2013 and December 29, 2012. The carrying amount of trade accounts receivable includes allowance for doubtful accounts, chargebacks and other deductions of $\$ 14,591$ and $\$ 14,940$ as of September 28, 2013 and December 29, 2012, respectively. The fair value of debt, which is classified as a Level 2 liability, was $\$ 1,508,864$ and $\$ 1,609,114$ as of September 28, 2013 and December 29, 2012 and had a carrying value of $\$ 1,416,614$ and $\$ 1,491,336$, respectively. The fair values were estimated using quoted market prices as provided in secondary markets which consider the Company's credit risk and market related conditions. The carrying amounts of the Company's notes payable, which is classified as a Level 2 liability, approximated fair value as of September 28, 2013 and December 29, 2012, primarily due to the short-term nature of these instruments.
(9) Income Taxes

The Company's effective income tax rate was $17 \%$ and $18 \%$ for the quarter and nine months ended September 28, 2013 , and $8 \%$ and $12 \%$ for the quarter and nine months ended September 29, 2012, respectively. The higher effective income tax rate for the quarter and nine months ended September 28, 2013 compared to the quarter and nine months ended September 29, 2012 was primarily attributable to a higher proportion of earnings attributed to domestic subsidiaries, which are taxed at rates higher than foreign subsidiaries.
The nine months ended September 28, 2013 included net discrete tax benefits of approximately $\$ 20,000$, which included an income tax benefit of approximately $\$ 6,000$ recorded in the first quarter of 2013 related to the retroactive application of the American Taxpayer Relief Act of 2012 that was signed into law in January 2013, approximately $\$ 4,000$ of tax benefits recorded in the second quarter of 2013 related to the realization of unrecognized tax benefits resulting from the lapsing of statutes of limitations in certain foreign jurisdictions, and approximately $\$ 10,000$ of tax benefits recorded in the third quarter of 2013 related primarily to the realization of unrecognized tax benefits resulting from the lapsing of domestic and foreign statutes of limitations.

The nine months ended September 29, 2012 included net discrete tax benefits of approximately $\$ 13,000$, recorded in the third quarter of 2012, which included an income tax benefit of approximately $\$ 9,000$ related to the realization of unrecognized tax benefits resulting from the expiration of domestic statutes of limitations and an income tax benefit of approximately $\$ 4,000$ related to an increase in research and development tax credits.

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
(10) Discontinued Operations

European Imagewear
In May 2012, the Company sold its European imagewear business to Smartwares, B.V. for $€ 15,000$ (approximately $\$ 13,000$, net of fees and other transaction related costs) in cash proceeds, resulting in a pre-tax loss of approximately $\$ 33,000$. The European imagewear business was previously reported within the International segment.
Domestic Imagewear
In 2012, the Company completed the discontinuation of its private-label and Outer Banks domestic imagewear operations that served wholesalers that sell to the screen-print industry. During 2012, the Company incurred pre-tax charges of approximately $\$ 63,000$, substantially all noncash, for the write-down of intangibles, inventory markdowns and other related items. The private-label and Outer Banks domestic imagewear operations were previously reported within the Activewear segment.

The operating results of these discontinued operations only reflect revenues and expenses that are directly attributable to these businesses and that will be eliminated from ongoing operations. The key components from discontinued operations related to the European and domestic imagewear businesses were as follows:

Net sales
Cost of sales
Gross profit loss
Selling, general and administrative expenses
Impairment of intangibles
Operating loss
Interest expense, net
Loss on disposal of business
Loss from discontinued operations before income tax benefit
Income tax benefit
Loss from discontinued operations, net of tax
$\left.\begin{array}{lll}\text { Quarter Ended } & \begin{array}{l}\text { Nine Months } \\ \text { Ended }\end{array} \\ \text { September 29, } & \text { September 29, } \\ 2012 & 2012 & \\ \$ 14,915 & \$ 88,769 & \\ 16,512 & 116,174 & \\ (1,597 & ) & (27,405 \\ 293 & 7,005 & \\ (172 & ) & 37,425 \\ (1,718 & ) & \\ - & 41,835 & \\ \hline 195 & 31,811 & \\ (1,913 & ) & (103,650\end{array}\right)$
(11)Business Segment Information

The Company's operations are managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear, Direct to Consumer and International. In the first quarter of 2013, the Company renamed the Outerwear segment to Activewear to reflect the trend of this category becoming a part of consumers' active lifestyles and more aptly describe the competitive space of this business. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms.
The types of products and services from which each reportable segment derives its revenues are as follows: Innerwear sells basic branded products that are replenishment in nature under the product categories of men's underwear, kids' underwear, socks and intimates, which includes bras, panties, hosiery and shapewear. Activewear sells basic branded products that are primarily seasonal in nature under the product categories of branded printwear and retail activewear, as well as licensed logo apparel in collegiate bookstores and other channels. Direct to Consumer includes the Company's value-based ("outlet") stores and Internet operations which sell products from the Company's portfolio of leading brands. The Company's Internet operations are supported by its catalogs.

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data) (unaudited)

International primarily relates to the Asia, Latin America, Canada and Australia geographic locations that sell products that span across the Innerwear and Activewear reportable segments.
The Company evaluates the operating performance of its segments based upon segment operating profit, which is defined as operating profit before general corporate expenses and amortization of intangibles. The accounting policies of the segments are consistent with those described in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 29, 2012. The Company decided in the first quarter of 2013 to revise the manner in which the Company allocates certain selling, general and administrative expenses. Certain prior-year segment operating profit disclosures have been revised to conform to the current-year presentation.

Net sales:
Innerwear
Activewear
Direct to Consumer
International
Total net sales

Segment operating profit:
Innerwear
Activewear
Direct to Consumer
International
Total segment operating profit
Items not included in segment operating profit:
General corporate expenses
Amortization of intangibles
Total operating profit
Other expenses
Interest expense, net
Income from continuing operations before income
tax expense

| Quarter Ended |  | Nine Months Ended |  |
| :--- | :--- | :--- | :--- |
| September 28, | September 29, | September 28, | September 29, |
| 2013 | 2012 | 2013 | 2012 |
|  |  |  |  |
| $\$ 560,127$ | $\$ 574,278$ | $\$ 1,744,471$ | $\$ 1,748,256$ |
| 405,091 | 413,033 | 966,508 | 981,021 |
| 100,003 | 99,111 | 272,719 | 278,396 |
| 132,125 | 132,259 | 358,314 | 364,792 |
| $\$ 1,197,346$ | $\$ 1,218,681$ | $\$ 3,342,012$ | $\$ 3,372,465$ |
|  |  |  |  |
| Quarter Ended |  | Nine Months Ended |  |
| September 28, | September 29, | September 28, | September 29, |
| 2013 | 2012 | 2013 | 2012 |
|  |  |  |  |
| $\$ 99,887$ | $\$ 100,069$ | $\$ 342,331$ | $\$ 277,737$ |
| 68,591 | 49,327 | 127,020 | 32,710 |
| 16,245 | 12,573 | 25,441 | 18,781 |
| 16,648 | 17,739 | 31,662 | 34,525 |
| 201,371 | 179,708 | 526,454 | 363,753 |
|  |  |  |  |
| $(21,143$ | $)$ | $(19,853$ | $)$ |
| $(72,968$ | $)$ | $(66,550$ |  |
| $(3,330$ | $)$ | $(3,347$ | $)$ |
| 176,898 | 156,508 | 443,488 | $(10,099$ |
| $(795$ | $)$ | $(3,373$ | $)$ |
| $(25,002$ | $)$ | $(32,897$ | $)$ |
| $(75,846$ | 287,104 |  |  |$)$

(12)Consolidating Financial Information

In accordance with the indenture governing the Company's $\$ 250,0008 \%$ Senior Notes issued on December 10, 2009 and the indenture governing the Company's $\$ 1,000,0006.375 \%$ Senior Notes issued on November 9, 2010, as supplemented from time to time (together, the "Indentures"), certain of the Company's subsidiaries have guaranteed the Company's obligations under the $8 \%$ Senior Notes and the $6.375 \%$ Senior Notes, respectively. The following presents the condensed consolidating financial information separately for:
(i) Parent Company, the issuer of the guaranteed obligations. Parent Company includes Hanesbrands Inc. and its 100\% owned operating divisions which are not legal entities, and excludes its subsidiaries which are legal entities;
(ii) Guarantor subsidiaries, on a combined basis, as specified in the Indentures;
(iii) Non-guarantor subsidiaries, on a combined basis;
(iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among Parent Company, the guarantor subsidiaries and the non-guarantor subsidiaries, (b) eliminate

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
intercompany profit in inventory, (c) eliminate the investments in the Company's subsidiaries and (d) record consolidating entries; and
(v) The Company, on a consolidated basis.

The $8 \%$ Senior Notes and the $6.375 \%$ Senior Notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary, each of which is $100 \%$ owned, directly or indirectly, by Hanesbrands Inc. A guarantor subsidiary's guarantee can be released in certain customary circumstances. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation.

Condensed Consolidating Statement of Comprehensive Income Quarter Ended September 28, 2013

|  | Parent <br> Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Net sales | \$1,006,219 | \$ 201,097 | \$ 621,751 | \$(631,721 ) | \$1,197,346 |
| Cost of sales | 788,512 | 100,344 | 493,115 | (606,305 ) | 775,666 |
| Gross profit | 217,707 | 100,753 | 128,636 | (25,416 ) | 421,680 |
| Selling, general and administrative expenses | 184,566 | 34,010 | 27,715 | (1,509 ) | 244,782 |
| Operating profit | 33,141 | 66,743 | 100,921 | (23,907 ) | 176,898 |
| Equity in earnings of subsidiaries | 127,032 | 70,951 | - | (197,983 ) | - |
| Other expenses | 795 | - | - | - | 795 |
| Interest expense, net | 23,049 | - | 1,953 | - | 25,002 |
| Income from continuing operations before income tax expense | 136,329 | 137,694 | 98,968 | (221,890 ) | 151,101 |
| Income tax expense | 11,066 | 7,962 | 6,810 | - | 25,838 |
| Income from continuing operations | 125,263 | 129,732 | 92,158 | (221,890 ) | 125,263 |
| Loss from discontinued operations, net of tax | - | - | - | - | - |
| Net income | \$ 125,263 | \$129,732 | \$ 92,158 | \$(221,890 ) | \$125,263 |
| Comprehensive income | \$126,325 | \$129,732 | \$ 91,023 | \$ 220,755 | \$126,325 |

Condensed Consolidating Statement of Comprehensive Income
Quarter Ended September 29, 2012

Net sales
Cost of sales
Gross profit
Selling, general and administrative
expenses
Operating profit
Equity in earnings of subsidiaries
Other expenses

| Parent <br> Company | Guarantor <br> Subsidiaries | Non-Guarantor Subsidiaries | Consolidating | Consolidated |
| :---: | :---: | :---: | :---: | :---: |
|  |  |  | Entries and |  |
| \$ 1,015,571 | \$ 197,538 | \$ 632,167 | \$ (626,595 | \$1,218,681 |
| 824,981 | 99,793 | 494,452 | (600,475 | 818,751 |
| 190,590 | 97,745 | 137,715 | (26,120 | 399,930 |
| 187,016 | 32,865 | 24,758 | (1,217 | 243,422 |
| 3,574 | 64,880 | 112,957 | (24,903 | 156,508 |
| 135,794 | 78,342 | - | (214,136 | - |
| 3,373 | - | - | - | 3,373 |

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| Interest expense, net | 30,214 | $(1$ | $)$ | 2,687 | $(3)$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Income from continuing operations | 105,781 | 143,223 | 110,270 | $(239,036$ | $) 120,238$ |
| before income tax expense (benefit) | $(5,567$ | $) 8,926$ | 5,696 | - | 9,055 |
| Income tax expense (benefit) | 11,348 | 134,297 | 104,574 | $(239,036$ | $) 111,183$ |
| Income from continuing operations | 111,897 |  |  |  |  |
| Income (loss) from discontinued | $(1,456$ | - | 165 | - | $(1,291$ |
| operations, net of tax | $\$ 109,892$ | $\$ 134,297$ | $\$ 104,739$ | $\$(239,036$ | $) \$ 109,892$ |
| Net income | $\$ 114,773$ | $\$ 134,297$ | $\$ 105,962$ | $\$(240,259$ | $) \$ 114,773$ |

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data) (unaudited)

Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating profit
Equity in earnings of subsidiaries
Other expenses
Interest expense, net
Income from continuing operations
before income tax expense
Income tax expense
Income from continuing operations
Loss from discontinued operations, net of tax
Net income
Comprehensive income

Net sales
Cost of sales
Gross profit
Selling, general and administrative
expenses
Operating profit (loss)
Equity in earnings of subsidiaries
Other expenses
Interest expense, net
Income from continuing operations
before income tax expense (benefit)
Income tax expense (benefit)
Income from continuing operations
Loss from discontinued operations, net of tax
Net income

Condensed Consolidating Statement of Comprehensive Income Nine Months Ended September 28, 2013

| Parent <br> Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| :---: | :---: | :---: | :---: | :---: |
| \$2,921,292 | \$502,179 | \$ 1,769,432 | \$(1,850,891 ) | \$3,342,012 |
| 2,286,074 | 242,603 | 1,395,191 | (1,766,317 ) | 2,157,551 |
| 635,218 | 259,576 | 374,241 | (84,574 ) | 1,184,461 |
| 547,403 | 108,141 | 89,463 | (4,034 ) | 740,973 |
| 87,815 | 151,435 | 284,778 | (80,540 ) | 443,488 |
| 314,898 | 198,981 | - | (513,879 ) | - |
| 2,010 | - | - | - | 2,010 |
| 70,958 | - | 4,888 | - | 75,846 |
| 329,745 | 350,416 | 279,890 | (594,419 | 365,632 |
| 31,517 | 17,091 | 18,796 | - | 67,404 |
| 298,228 | 333,325 | 261,094 | (594,419 | 298,228 |
|  | - | - | - | - |
| \$298,228 | \$333,325 | \$ 261,094 | \$(594,419 ) | \$298,228 |
| \$297,386 | \$333,325 | \$ 253,660 | \$ 586,985 | \$297,386 |

Condensed Consolidating Statement of Comprehensive Income Nine Months Ended September 29, 2012

| Parent <br> Company | Guarantor Subsidiaries |  | Non-Guarantor Subsidiaries |  | Consolidating | Consolidated |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Entries and |  |
|  |  |  | Eliminations |  |
| \$2,909,716 |  | \$499,345 |  |  |  | \$ 1,727,880 | \$(1,764,476 ) | \$3,372,465 |
| 2,399,275 |  | 239,531 |  |  |  | 1,414,140 | (1,702,457 ) | 2,350,489 |
| 510,441 |  | 259,814 |  | 313,740 | (62,019 ) | 1,021,976 |
| 548,650 |  | 97,836 |  | 91,767 | (3,381 ) | 734,872 |
| (38,209 | ) | 161,978 |  | 221,973 | (58,638 ) | 287,104 |
| 238,712 |  | 153,265 |  | - | (391,977 ) | - |
| 4,829 |  | - |  | - | - | 4,829 |
| 98,534 |  | (8) | ) | 7,979 | (2) | 106,503 |
| 97,140 |  | 315,251 |  | 213,994 | (450,613 ) | 175,772 |
| (14,646 | ) | 24,656 |  | 11,534 | - | 21,544 |
| 111,786 |  | 290,595 |  | 202,460 | (450,613 ) | 154,228 |
| (27,493 | ) | (31,791 | ) | (14,636 | 3,985 | (69,935 |
| \$84,293 |  | \$258,804 |  | \$ 187,824 | \$(446,628 ) | \$84,293 |

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Comprehensive income
$\$ 92,489 \quad \$ 258,804-\$ 187,116$
\$(445,920 ) \$92,489

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)

Assets

| Cash and cash equivalents | $\$ 14,056$ | $\$ 2,682$ | $\$ 115,582$ | $\$-$ | $\$ 132,320$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Trade accounts receivable, net | 48,092 | 54,203 | 485,196 | $(1,781$ | 585,710 |
| Inventories | 996,230 | 110,845 | 415,863 | $(208,967$ | $)$ |
| Deferred tax assets | 164,013 | 1,015 | 3,310 | - | 168,971 |
| Other current assets | 27,915 | 10,729 | 18,337 | $(267$ | $) 56,714$ |
| Total current assets | $1,250,306$ | 179,474 | $1,038,288$ | $(211,015$ | $) 2,257,053$ |
| Property, net | 83,852 | 37,391 | 445,533 | - | 566,776 |
| Trademarks and other identifiable | 8,718 | 88,161 | 14,960 | - | 111,839 |
| intangibles, net | 232,882 | 124,247 | 75,850 | - | 432,979 |
| Goodwill | $2,555,730$ | $1,453,875$ | - | $(4,009,605$ | - |
| Investments in subsidiaries | 233,926 | 154,325 | 16,884 | - | 405,135 |
| Deferred tax assets | $4,322,565$ | $3,442,323$ | $2,055,671$ | $(9,820,559$ | - |
| Receivables from related entities | 59,290 | 316 | 1,629 | - | 61,235 |
| Other noncurrent assets | $\$ 8,747,269$ | $\$ 5,480,112$ | $\$ 3,648,815$ | $\$(14,041,179)$ | $\$ 3,835,017$ |

Liabilities and Stockholders'
Equity

| Accounts payable | $\$ 258,338$ | $\$ 12,179$ | $\$ 169,840$ | $\$-$ | $\$ 440,357$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Accrued liabilities | 171,848 | 53,482 | 76,305 | $(130$ | 301,505 |
| Notes payable | - | - | 5,209 | - | 5,209 |
| Accounts Receivable Securitization | - | - | 166,614 | - | 166,614 |
| Facility | 430,186 | 65,661 | 417,968 | $(130$ | $) 913,685$ |
| Total current liabilities | $1,250,000$ | - | - | - | $1,250,000$ |
| Long-term debt | 393,272 | - | 11,282 | - | 404,554 |
| Pension and postretirement benefits | $5,429,729$ | $2,686,892$ | $1,438,538$ | $(9,555,159$ | - |
| Payables to related entities | 91,978 | 11,130 | 11,566 | - | 114,674 |
| Other noncurrent liabilities | $7,595,165$ | $2,763,683$ | $1,879,354$ | $(9,555,289$ | $2,682,913$ |
| Total liabilities | $1,152,104$ | $2,716,429$ | $1,769,461$ | $(4,485,890$ | $1,152,104$ |
| Stockholders' equity | $\$ 5,480,112$ | $\$ 3,648,815$ | $\$(14,041,179)$ | $\$ 3,835,017$ |  |

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)

|  | Condensed Consolidating Balance Sheet December 29, 2012 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Parent <br> Company | Guarantor <br> Subsidiaries | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| Assets |  |  |  |  |  |
| Cash and cash equivalents | \$5,617 | \$1,919 | \$ 35,260 | \$- | \$42,796 |
| Trade accounts receivable, net | 39,379 | 32,199 | 434,825 | (125 ) | 506,278 |
| Inventories | 882,290 | 102,121 | 413,340 | (144,615 ) | 1,253,136 |
| Deferred tax assets | 161,935 | 1,015 | 3,239 | - | 166,189 |
| Other current assets | 30,692 | 11,917 | 16,563 | (46 ) | 59,126 |
| Total current assets | 1,119,913 | 149,171 | 903,227 | (144,786 ) | 2,027,525 |
| Property, net | 90,820 | 41,326 | 464,012 | - | 596,158 |
| Trademarks and other identifiable intangibles, net | 10,662 | 93,727 | 15,725 | - | 120,114 |
| Goodwill | 232,882 | 124,247 | 76,171 | - | 433,300 |
| Investments in subsidiaries | 2,220,706 | 1,284,516 | - | (3,505,222 ) | - |
| Deferred tax assets | 224,559 | 154,325 | 18,645 | - | 397,529 |
| Receivables from related entities | 3,967,079 | 3,198,153 | 1,785,466 | (8,950,698 ) | - |
| Other noncurrent assets | 51,686 | 271 | 5,117 | - | 57,074 |
| Total assets | \$7,918,307 | \$5,045,736 | \$ 3,268,363 | \$(12,600,706) | \$3,631,700 |
| Liabilities and Stockholders' |  |  |  |  |  |
| Equity |  |  |  |  |  |
| Accounts payable | \$217,645 | \$8,209 | \$ 177,790 | \$- | \$403,644 |
| Accrued liabilities | 145,962 | 57,375 | 68,666 | (31 ) | 271,972 |
| Notes payable | - | - | 26,216 | - | 26,216 |
| Accounts Receivable Securitization Facility | - | - | 173,836 | - | 173,836 |
| Total current liabilities | 363,607 | 65,584 | 446,508 | (31 ) | 875,668 |
| Long-term debt | 1,317,500 | - | - | - | 1,317,500 |
| Pension and postretirement benefits | 433,490 | - | 12,777 | - | 446,267 |
| Payables to related entities | 4,835,465 | 2,582,287 | 1,281,957 | (8,699,709 ) | - |
| Other noncurrent liabilities | 81,379 | 10,977 | 13,043 | - | 105,399 |
| Total liabilities | 7,031,441 | 2,658,848 | 1,754,285 | (8,699,740 ) | 2,744,834 |
| Stockholders' equity | 886,866 | 2,386,888 | 1,514,078 | (3,900,966 ) | 886,866 |
| Total liabilities and stockholders' equ | \$7,918,307 | \$5,045,736 | \$3,268,363 | \$(12,600,706) | \$3,631,700 |

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data) (unaudited)

Condensed Consolidating Statement of Cash Flows Nine Months Ended September 28, 2013

|  | Parent <br> Company |  | Guarantor <br> Subsidiarie |  | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net cash provided by operating activities Investing activities: | \$423,624 |  | \$177,525 |  | \$ 169,730 | \$(513,894 | \$256,985 |
|  |  |  |  |  |  |  |  |
| Capital expenditures | (13,106 | ) | (3,601 | ) | (14,014 | - | (30,721 |
| Proceeds from sales of assets | 3,402 |  | 26 |  | 2,468 | - | 5,896 |
| Net cash used in investing activities | (9,704 | ) | (3,575 | ) | (11,546 | - | (24,825 |
| Financing activities: |  |  |  |  |  |  |  |
| Borrowings on notes payable | - |  | - |  | 68,333 | - | 68,333 |
| Repayments on notes payable | - |  | - |  | (89,168 | - | (89,168 |
| Borrowings on Accounts Receivable Securitization Facility | - |  | - |  | 100,731 | - | 100,731 |
| Repayments on Accounts Receivable Securitization Facility | - |  | - |  | (107,953 | - | (107,953 |
| Borrowings on Revolving Loan Facility | 2,629,000 |  | - |  | - | - | 2,629,000 |
| Repayments on Revolving Loan Facility | (2,696,500 | ) | - |  | - | - | (2,696,500 |
| Cash dividends paid | (39,615 | ) | - |  | - | - | (39,615 |
| Proceeds from stock options exercised | 5,279 |  | - |  | - | - | 5,279 |
| Taxes paid related to net shares settlement of equity awards | (24,832 |  | - |  | - | - | (24,832 |
| Excess tax benefit from stock-based compensation | 18,220 |  | - |  | - | - | 18,220 |
| Other | (4,602 |  | - |  | (309 | (3 | (4,914 ) |
| Net transactions with related entities | (292,431 |  | (173,187 | ) | (48,279 | 513,897 | - |
| Net cash used in financing activities | (405,481 |  | (173,187 | ) | (76,645 | 513,894 | (141,419 |
| Effect of changes in foreign exchange rates on cash | - |  | - |  | (1,217 | - | (1,217 |
| Increase in cash and cash equivalents | 8,439 |  | 763 |  | 80,322 | - | 89,524 |
| Cash and cash equivalents at beginning of year | 5,617 |  | 1,919 |  | 35,260 | - | 42,796 |
| Cash and cash equivalents at end of period | \$14,056 |  | \$2,682 |  | \$ 115,582 | \$- | \$132,320 |

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
Condensed Consolidating Statement of Cash Flows Nine Months Ended September 29, 2012

(13)Subsequent Events

Maidenform Brands Acquisition
On July 24, 2013, the Company announced that it entered into a definitive agreement to acquire Maidenform Brands, Inc. ("Maidenform"), a global intimate apparel company. Maidenform is a leading seller of bras, shapewear and panties under brands such as Maidenform, Flexees, Lilyette, Self Expressions and Sweet Nothings, as well as Donna Karan and DKNY intimate apparel under license. The Company closed on the acquisition of Maidenform on October 7, 2013 in an all-cash transaction valued at approximately $\$ 583,000$. Under the terms of the agreement, Maidenform stockholders received $\$ 23.50$ in cash for each share of Maidenform common stock. The Company funded the

Maidenform acquisition with cash on hand and short-term borrowings under its Revolving Loan Facility, which the Company plans to retire through free cash flow. The acquisition is expected to create growth and cost savings opportunities and increased scale to serve retailers.

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
As a result of the acquisition of Maidenform, beginning fourth quarter of 2013, the Company's consolidated results of operations will include the results of Maidenform. Results of Maidenform are not included in the Company's consolidated results of operations for the third quarter or nine months ended September 28, 2013. The Company has not completed a detailed valuation analysis necessary to determine the fair market values of the Maidenform assets acquired and liabilities assumed or any related income tax effects. The Company expects to finalize the acquisition accounting related to the transaction during the fourth quarter of 2013.
Dividends
As part of the Company's cash deployment strategy, in October 2013 the Company's Board of Directors authorized a regular quarterly dividend of $\$ 0.20$ per share to be paid December 3, 2013 to stockholders of record at the close of business on November 8, 2013.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations This management's discussion and analysis of financial condition and results of operations, or MD\&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" in this Quarterly Report on Form 10-Q for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 29, 2012, which were included in our Annual Report on Form 10-K filed with the SEC. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to the risks associated with our ability to realize the benefits anticipated from the Maidenform Brands, Inc. ("Maidenform") acquisition, as well as the risks included elsewhere in this Quarterly Report on Form 10-Q and those included in the "Risk Factors" section and elsewhere in our Annual Report on Form 10-K for the year ended December 29, 2012. Overview
We are a consumer goods company with a portfolio of leading apparel brands, including Hanes, Champion, Bali, Playtex, Just My Size, L'eggs, barely there, Wonderbra, Gear for Sports, Zorba, Sol y Oro and Rinbros. We design, manufacture, source and sell a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, kids' underwear, casualwear, activewear, socks and hosiery.
Our operations are managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear, Direct to Consumer and International. In the first quarter of 2013, we renamed the Outerwear segment to Activewear to reflect the trend of this category becoming a part of consumers' active lifestyles and more aptly describe the competitive space of this business. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms. In the first quarter of 2013, we decided to revise the manner in which we allocate certain selling, general and administrative expenses. Certain prior-year segment operating profit disclosures have been revised to conform to the current-year presentation.
In May 2012, we sold our European imagewear business and completed the discontinuation of our private-label and Outer Banks domestic imagewear operations which served wholesalers that sell to the screen-print industry. As a result of these actions, the prior-year disclosures reflect these operations as discontinued operations.

Highlights from the Third Quarter and Nine Months Ended September 28, 2013
Key financial highlights during the quarter are as follows:
Total net sales in the third quarter of 2013 were $\$ 1.20$ billion, compared with $\$ 1.22$ billion in the same quarter of 2012, representing a $2 \%$ decrease. Total net sales in the nine months of 2013 were $\$ 3.34$ billion, compared to $\$ 3.37$ billion in the same period of 2012.
Operating profit was $\$ 177$ million in the third quarter of 2013 , compared with $\$ 157$ million in the same quarter of 2012. As a percentage of sales, operating profit was $14.8 \%$ in the third quarter of 2013 compared to $12.8 \%$ in the same quarter of 2012. All four of our business segments earned double-digit operating margins in the third quarter of 2013. Operating profit was $\$ 443$ million in the nine months of 2013 , compared with $\$ 287$ million in the same period of 2012. As a percentage of sales, operating profit was $13.3 \%$ in the nine months of 2013 compared to $8.5 \%$ in the same period of 2012 .
Diluted earnings per share was $\$ 1.23$ in the third quarter of 2013, compared with diluted earnings per share from continuing operations of $\$ 1.11$ in the same quarter of 2012. Diluted earnings per share was $\$ 2.93$ in the nine months of 2013, compared with diluted earnings per share from continuing operations of $\$ 1.54$ the same period of 2012.
On July 24, 2013, we announced that we entered into a definitive agreement to acquire Maidenform Brands, Inc., a global intimate apparel company. Maidenform is a leading seller of bras, shapewear and panties under brands such as Maidenform, Flexees, Lilyette, Self Expressions and Sweet Nothings, as well as Donna Karan and DKNY intimate

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apparel under license. We closed on the acquisition of Maidenform on October 7, 2013 in an all cash transaction valued at approximately $\$ 583$ million. Under the terms of the agreement, Maidenform stockholders received $\$ 23.50$ in cash for each share of Maidenform common stock. We funded the Maidenform acquisition with cash on hand and short-term borrowings under our Revolving Loan Facility, which we plan to retire through free cash flow. The acquisition is expected to create growth and cost savings opportunities and increased scale to serve retailers. Results of

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Maidenform are not included in our consolidated results of operations for the third quarter or nine months ended September 28, 2013. We expect to finalize the acquisition accounting related to the transaction during the fourth quarter of 2013.
As part of our cash deployment strategy, in September 2013 we paid a quarterly dividend of $\$ 0.20$ per share. Outlook
We expect net sales of slightly more than $\$ 4.6$ billion in 2013, including approximately $\$ 120$ million in the fourth quarter from Maidenform. This guidance assumes flat sales in the fourth quarter excluding the sales contributions by Maidenform. We are taking a conservative view on sales in the fourth quarter considering the soft retail environment and cautious outlook for the year-end holiday season many retailers are taking. We expect to invest approximately $\$ 18$ million in incremental media spending in the fourth quarter.
We expect to incur acquisition- and integration-related expenses of $\$ 120$ million to $\$ 140$ million associated with Maidenform acquisition, with $\$ 50$ million to $\$ 60$ million of the charges occurring in the fourth quarter of 2013 and the remainder in 2014. Approximately half of the total charges will be noncash.
We continue to expect to retire all $\$ 250$ million of our remaining of 8 percent senior notes due 2016 in the fourth quarter of 2013, while also increasing borrowings on our Revolving Credit Facility due to the purchase of Maidenform.
Seasonality and Other Factors
Our operating results are subject to some variability due to seasonality and other factors. Generally, our diverse range of product offerings helps mitigate the impact of seasonal changes in demand for certain items. We generally have higher sales during back-to-school shopping and holiday shopping seasons and during periods of cooler weather, which benefits certain product categories such as fleece. Sales levels in any period are also impacted by customers' decisions to increase or decrease their inventory levels in response to anticipated consumer demand. Our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice to us. Media, advertising and promotion expenses may vary from period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions.
Although the majority of our products are replenishment in nature and tend to be purchased by consumers on a planned, rather than on an impulse, basis, our sales are impacted by discretionary spending by consumers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, taxation, gasoline prices, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside our control. Consumers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. These consumers may choose to purchase fewer of our products or to purchase lower-priced products of our competitors in response to higher prices for our products, or may choose not to purchase our products at prices that reflect our price increases that become effective from time to time.
Changes in product sales mix can impact our gross profit as the percentage of our sales attributable to higher margin products, such as intimate apparel and men's underwear, and lower margin products, such as casualwear and activewear, fluctuate from time to time. In addition, sales attributable to higher and lower margin products within the same product category fluctuate from time to time. Our customers may change the mix of products ordered with minimal notice to us, which makes trends in product sales mix difficult to predict. However, certain changes in product sales mix are seasonal in nature, as sales of socks, hosiery and fleece products generally have higher sales during the last two quarters (July to December) of each fiscal year as a result of cooler weather, back-to-school shopping and holidays, while other changes in product mix may be attributable to customers' preferences and discretionary spending.

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Condensed Consolidated Results of Operations - Third Quarter Ended September 28, 2013 Compared with Third Quarter Ended September 29, 2012

Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating profit
Other expenses
Interest expense, net
Income from continuing operations before income
tax expense
Income tax expense
Income from continuing operations
Loss from discontinued operations, net of tax
Net income
Net Sales
Net sales decreased $2 \%$ during the third quarter as a result of a general retail weakness in the back-to-school selling period. Our Innovate-to-Elevate strategy, which combines brand, supply chain and product innovation initiatives, helped drive core-product and new-product success, including share gains in the quarter. Excluding the impact of unfavorable foreign currency exchange rates, net sales decreased less than $1 \%$.
Innerwear segment net sales decreased (3\%) during the quarter primarily resulting from lower sales across most of the segment's categories with the exception of bras and socks. Net sales were higher for Hanes socks, Bali bras and panties, Polo underwear, and Hanes, Playtex and Just My Size bras.
Activewear net sales declined (2\%) primarily due to lower net sales in our retail activewear category and the planned reduction of commodity-oriented branded printwear sales to the screen-print industry.
International segment net sales were approximately flat compared to the third quarter of 2012. Excluding the unfavorable impact of foreign exchange rates, International segment net sales were $10 \%$ higher. Direct to Consumer segment net sales were higher ( $1 \%$ ).
Gross Profit
Our gross margin increased 240 basis points in the third quarter of 2013 with improvements in nearly every segment. Our Innovate-to-Elevate strategy continues to help drive profitable results as we combine our brand and supply chain strengths with product innovation. Our Innovate-to-Elevate strategy leverages our strong brands and drives a higher price per unit for our entire product portfolio with innovative platforms such as Hanes X-Temp underwear and socks, Comfort Blend underwear and Smart Sizes bras. Our supply chain allows us to leverage our scale to lower our cost per unit and improve margins.
Selling, General and Administrative Expenses
As a percentage of net sales, our selling, general and administrative expenses was $20.4 \%$ in the third quarter of 2013 compared to $20.0 \%$ in the third quarter of 2012. The higher selling, general and administrative expenses were primarily attributable to our planned higher media spending of $\$ 8$ million, partially offset by lower distribution costs and lower general and administrative expenses.
Other Highlights
Interest Expense - lower by $\$ 8$ million in the third quarter of 2013 compared to the third quarter of 2012 primarily due to lower outstanding debt balances and a lower weighted average interest rate. Our weighted average interest rate on our outstanding debt was $5.33 \%$ during the third quarter of 2013 , compared to $5.76 \%$ in the third quarter of 2012.

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Income Tax Expense - our effective income tax rate was $17 \%$ and $8 \%$ for the third quarter of 2013 and the third quarter of 2012 , respectively. The higher effective income tax rate was primarily attributable to a higher proportion of earnings attributed to domestic subsidiaries, which are taxed at rates higher than foreign subsidiaries. The third quarter of 2013 included $\$ 10$ million of discrete net tax benefits related primarily to the realization of unrecognized tax benefits resulting from the lapsing of domestic and foreign statutes of limitations. The third quarter of 2012 included discrete net tax benefits of approximately $\$ 13$ million, which consisted of an income tax benefit of approximately $\$ 9$ million related to the realization of unrecognized tax benefits resulting from the expiration of domestic statutes of limitations and an income tax benefit of approximately $\$ 4$ million related to an increase in research and development tax credits.
Operating Results by Business Segment - Third Quarter Ended September 28, 2013 Compared with Third Quarter Ended September 29, 2012


A general retail weakness in the back-to-school selling period led to lower sales across most of the segment's categories. The soft retail environment resulted in lower sales volume which was partially offset by a higher price per unit as a result of the success of our Innovate-to-Elevate strategy. Net sales were higher for Hanes socks, Bali bras and panties, Polo underwear, and Hanes, Playtex and Just My Size bras.
Innerwear segment operating margin improved 40 basis points to $17.8 \%$ in the third quarter of 2013 which resulted from benefits from our Innovate-to-Elevate strategy that is increasing our price per unit with margin accretive product innovations and reducing our cost per unit through supply chain efficiencies and lower input costs. The operating margin was also impacted by planned higher media spending and lower sales volume.
Activewear

| Net sales | $\$ 405,091$ | $\$ 413,033$ | $\$(7,942$ | $)$ | $(1.9$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Segment operating profit | 68,591 | 49,327 | 19,264 | 39.1 |  |

The lower net sales of Activewear is primarily attributable to lower sales volume and the planned reduction of commodity-oriented branded printwear sales to the screen-print industry, partially offset by a higher price per unit as a result of the success of our Innovate-to-Elevate strategy.

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Activewear segment operating margin improved by 500 basis points to $16.9 \%$ in the quarter. This significant improvement was driven by our Innovate-to-Elevate strategy which is increasing our price per unit with margin accretive product innovations and reducing our cost per unit through supply chain efficiencies and lower input costs. The margin improvement was also impacted by the planned reduction of lower margin commodity-oriented branded printwear sales.

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Direct to Consumer

| Net sales | $\$ 100,003$ | $\$ 99,111$ | $\$ 892$ | 0.9 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Segment operating profit | 16,245 | 12,573 | 3,672 | 29.2 |  |

Direct to Consumer segment net sales were higher due to higher net sales related to our Internet operations and higher net sales in our outlet stores. Comparable store sales were 5\% higher in the third quarter of 2013 compared to the same period of 2012.
Direct to Consumer segment operating margin improved 350 basis points to $16.2 \%$ which was primarily attributable to an adjustment in store pricing strategy.
International
$\left.\begin{array}{llllll}\text { Net sales } & \$ 132,125 & \$ 132,259 & \$(134 & ) & (0.1 \\ \text { Segment operating profit } & 16,648 & 17,739 & (1,091 & ) & (6.2\end{array}\right)$

Sales in the International segment were lower primarily due to the unfavorable impact of foreign exchange rates. Excluding the unfavorable impact of foreign exchange rates, International segment net sales were $10 \%$ higher, primarily due to high net sales in Canada and Australia.
International segment operating margin declined 80 basis points to $12.6 \%$ primarily due to unfavorable impact related to foreign currency exchange rates, higher product costs and an unfavorable product sales mix due to a shift towards lower margin products in certain countries, partially offset by higher sales volume. The International segment's operating margin was positively impacted by savings from progress made from our regionalization strategy which integrates certain international businesses into our U.S. infrastructure in order to eliminate duplicate support functions. General Corporate Expenses
General corporate expenses were higher in the third quarter of 2013 compared to the third quarter of 2012 primarily due to costs incurred implementing our regionalization strategy.

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Condensed Consolidated Results of Operations - Nine Months Ended September 28, 2013 Compared with Nine Months Ended September 29, 2012

Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating profit
Other expenses
Interest expense, net
Income from continuing operations before income
tax expense
Income tax expense
Income from continuing operations
Loss from discontinued operations, net of tax
Net income
Net Sales
Net sales were lower ( $<1 \%$ ), in the nine months of 2013 compared to the same period of 2012 as a result of a general retail weakness in the back-to-school selling period. Our Innovate-to-Elevate strategy helped drive core-product and new-product success, including share gains in 2013.
Innerwear segment net sales were flat compared to the nine months of 2012. Stronger net sales in our men's underwear and socks product categories were offset by lower net sales in our intimate apparel and kids' underwear product categories.
Activewear net sales declined ( $2 \%$ ) primarily due to the planned reduction of commodity-oriented branded printwear sales, partially offset by higher net sales in our retail activewear category and Gear for Sports licensed apparel. International segment net sales were $2 \%$ lower compared to the third quarter of 2012 primarily due to foreign currency. Excluding the unfavorable impact of foreign exchange rates, International segment net sales were 6\% higher. Direct to Consumer segment net sales were lower ( $2 \%$ ) primarily due to the closure of certain lower profitable stores, partially offset by higher comparable store sales.
Gross Profit
Our gross margin increased 510 basis points to $35.4 \%$ in the nine months of 2013 with improvements in nearly every segment. Our Innovate-to-Elevate strategy continues to help drive profitable results as we combine our brand and supply chain strengths with product innovation. Our Innovate-to-Elevate strategy leverages our strong brands and drives a higher price per unit for our entire product portfolio with innovative platforms such as Hanes X-Temp underwear and socks, Comfort Blend underwear and Smart Sizes bras. Our supply chain allows us to leverage our scale to lower our cost per unit and improve margins.
Selling, General and Administrative Expenses
As a percentage of net sales, our selling, general and administrative expenses were $22.2 \%$ in the nine months of 2013 compared to $21.8 \%$ in the same period of 2012. The higher selling, general and administrative expenses were primarily attributable to planned higher media spending, partially offset by lower distribution costs and lower general and administrative expenses.
Other Highlights
Interest Expense - lower by $\$ 31$ million in the nine months of 2013 compared to the same period of 2012 primarily due to lower outstanding debt balances and a lower weighted average interest rate. Our weighted average interest rate on our outstanding debt was $5.36 \%$ during the nine months of 2013 compared to $5.74 \%$ in the same period of 2012.

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Income Tax Expense - our effective income tax rate was $18 \%$ and $12 \%$ for the nine months of 2013 and 2012, respectively. The higher effective income tax rate was primarily attributable to a higher proportion of earnings attributed to domestic subsidiaries, which are taxed at rates higher than foreign subsidiaries.
The nine months ended September 28, 2013 included net discrete tax benefits of approximately $\$ 20$ million, which included approximately $\$ 14$ million of tax benefits related primarily to the realization of unrecognized tax benefits resulting from the lapsing of domestic and foreign statutes of limitations and an income tax benefit of approximately $\$ 6$ million related to the retroactive application of the American Taxpayer Relief Act of 2012 that was signed into law in January 2013.
The nine months ended September 29, 2012 included net discrete tax benefits of approximately $\$ 13$ million which included an income tax benefit of approximately $\$ 9$ million related to the realization of unrecognized tax benefits resulting from the expiration of domestic statutes of limitations and an income tax benefit of approximately $\$ 4$ million related to an increase in research and development tax credits.
Operating Results by Business Segment - Nine Months Ended September 28, 2013 Compared with Nine Months Ended September 29, 2012


Innerwear segment net sales were flat compared to the nine months of 2012. A general retail weakness in the back-to-school selling period led to lower sales volume which was offset by a higher price per unit as a result of the success of our Innovate-to-Elevate strategy.
Innerwear segment operating margin improved 370 basis points to $19.6 \%$ in the nine months of 2013 which resulted from benefits from our Innovate-to-Elevate strategy that is increasing our price per unit with margin accretive product innovations and reducing our cost per unit through supply chain efficiencies and lower input costs. The operating margin was also impacted by higher planned media spending.

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Activewear
$\left.\begin{array}{llllll}\text { Net sales } & \$ 966,508 & \$ 981,021 & \$(14,513 & ) & (1.5\end{array}\right) \%$

Activewear net sales declined ( $2 \%$ ) primarily due to the planned reduction of commodity-oriented branded printwear sales, partially offset by higher net sales in our retail activewear category and Gear for Sports licensed apparel as a result of a higher price per unit as a result of the success of our Innovate-to-Elevate strategy.
Activewear segment operating margin improved by 980 basis points to $13.1 \%$ in the nine months of 2013. This significant improvement was primarily driven by our Innovate-to-Elevate strategy which is increasing our price per unit with margin accretive product innovations and reducing our cost per unit through supply chain efficiencies and lower input costs. The margin improvement was also impacted by the planned reduction of lower margin commodity-oriented branded printwear sales.
Direct to Consumer

| Net sales | $\$ 272,719$ | $\$ 278,396$ | $\$(5,677$ | $)$ | $(2.0$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Segment operating profit | 25,441 | 18,781 | 6,660 | 35.5 |  |

Direct to Consumer segment net sales were lower due to lower net sales in our outlet stores resulting from the closure of certain lower profitable stores, partially offset by higher comparable store sales of $1 \%$.
Direct to Consumer segment operating margin improved 260 basis points to $9.3 \%$ which was primarily attributable to lower product costs and an adjustment in store pricing strategy, partially offset by lower sales volume.
International

Net sales
Segment operating profit

| Nine Months Ended  <br> September 28, September 29, | Higher <br> (Lower) | Percent <br> Change |  |  |
| :--- | :--- | :--- | :--- | :--- |
| 2013 2012 |  |  |  |  |
| (dollars in thousands) | $\$ 358,314$ | $\$ 364,792$ | $\$(6,478$ | $)$ |
| 31,662 | 34,525 | $(2,863$ | $)$ | $(8.8$ |

Overall net sales in the International segment were lower primarily due to the unfavorable impact of foreign exchange rates. Excluding the unfavorable impact of foreign exchange rates, International segment net sales were higher by $6 \%$, primarily due to higher net sales in Canada, Australia and Asia.
International segment operating margin declined 70 basis points to $8.8 \%$ primarily due to the unfavorable impact related to foreign currency exchange rates and an unfavorable product sales mix due to a shift towards lower margin products in certain countries. The International segment's operating margin was positively impacted by savings from progress made from our regionalization strategy which integrates certain international businesses into our U.S. infrastructure in order to eliminate duplicate support functions.
General Corporate Expenses
General corporate expenses were higher in the nine months of 2013 compared to the same period of 2012 primarily due to costs incurred implementing our regionalization strategy.

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Liquidity and Capital Resources
Trends and Uncertainties Affecting Liquidity
Our primary sources of liquidity are cash generated by operations and availability under the $\$ 1.1$ billion revolving credit facility (the "Revolving Loan Facility") under the senior secured credit facility (the "Senior Secured Credit Facility"), the accounts receivable securitization facility (the "Accounts Receivable Securitization Facility") and our international loan facilities.
At September 28, 2013, we had $\$ 1.1$ billion of borrowing availability under our Revolving Loan Facility (after taking into account outstanding letters of credit), $\$ 136$ million of borrowing availability under our international loan facilities, $\$ 132$ million in cash and cash equivalents and no borrowing availability under our Accounts Receivable Securitization Facility. We currently believe that our existing cash balances and cash generated by operations, together with our available credit capacity, will enable us to comply with the terms of our indebtedness and meet foreseeable liquidity requirements.
We typically use cash for the first half of the year and generate most of our cash flow in the second half of the year. In the fourth quarter of 2013, we expect to complete our planned debt reduction with the redemption of the remaining $\$ 250$ million of $8 \%$ Senior Notes. We expect our cash deployment strategy in the future will include a mix of dividends, bolt-on acquisitions and share repurchases. For example, as part of our cash deployment strategy, in April 2013 our Board of Directors authorized a regular quarterly dividend. Our first dividend of $\$ 0.20$ per share was paid June 3, 2013, our second quarterly dividend was paid on September 3, 2013 and our third quarterly dividend was authorized by our Board of Directors in October 2013 to be paid in December 2013. In addition, as discussed above under "Highlights for the Third Quarter and Nine Months Ended September 28, 2013," on July 24, 2013 we entered into a definitive agreement to acquire Maidenform, which closed on October 7, 2013. We funded the Maidenform acquisition with cash on hand and short-term borrowings under our Revolving Loan Facility, which we plan to retire through free cash flow.
Cash Requirements for Our Business
We rely on our cash flows generated from operations and the borrowing capacity under our Revolving Loan Facility, Accounts Receivable Securitization Facility and international loan facilities to meet the cash requirements of our business. The primary cash requirements of our business are payments to vendors in the normal course of business, capital expenditures, maturities of debt and related interest payments, contributions to our pension plans and repurchases of our stock. We believe we have sufficient cash and available borrowings for our foreseeable liquidity needs.
There have been no significant changes in the cash requirements for our business from those described in our Annual Report on Form 10-K for the year ended December 29, 2012.
Sources and Uses of Our Cash
The information presented below regarding the sources and uses of our cash flows for the nine months ended
September 28, 2013 and September 29, 2012 was derived from our condensed consolidated financial statements. Nine Months Ended September 28, September 29, 20132012 (dollars in thousands)
Operating activities
\$256,985 \$309,405
Investing activities
Financing activities
Effect of changes in foreign currency exchange rates on cash
Increase in cash and cash equivalents
Cash and cash equivalents at beginning of year
Cash and cash equivalents at end of period
(24,825 ) (16,454

Can
$(141,419)(146,189)$
(1,217 ) 162

89,524 146,924
42,796 35,345
\$132,320 \$182,269
The lower net cash from operating activities is primarily attributable to changes in working capital, primarily inventory compared to prior year, partially offset by higher net income. Inventory decreased $2 \%$ compared to

September 29, 2012, which was the result of lower input costs and lower units from our continued focus on inventory management.
The higher net cash used in investing activities resulted from proceeds from the sale of the European imagewear business in 2012, partially offset by lower net capital expenditures. The lower net cash used in financing activities resulted from the

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redemption of our Floating Rate Senior Notes in 2012, partially offset by higher net repayments on our loan facilities and cash dividends paid during 2013 of $\$ 40$ million.
Financing Arrangements
In July 2013, we amended the Revolving Loan Facility to increase the borrowing limit from $\$ 600$ million to $\$ 1.1$ billion, decrease borrowing costs by 25 basis points and extend the maturity date to (i) July 2018 or (ii) September 2016 if our $8 \%$ Senior Notes have not been refinanced or repaid or the maturity date thereof has not otherwise been extended beyond July 2018 by September 2016.
In March 2013, we amended the Accounts Receivable Securitization Facility. This amendment decreased certain fee rates and extended the termination date to March 2014.
As of September 28, 2013, we were in compliance with all financial covenants under our credit facilities. We expect to maintain compliance with our covenants for the foreseeable future, however economic conditions or the occurrence of events discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 29, 2012 or other SEC filings could cause noncompliance.
In February 2013, Moody's Investors Service ("Moody's") upgraded our corporate credit rating to Ba2 from Ba3. Moody's also raised the rating on our Revolving Loan Facility to Baa2 from Baa3, the $6.375 \%$ Senior Notes to Ba3 from B1 and the $8 \%$ Senior Notes to Ba3 from B1. Moody's indicated that the upgrade reflects our significant debt reduction efforts and our positive trends in operating performance in the second half of 2012 primarily reflecting improved gross margins. In April 2013, Standard \& Poor's Ratings Services ("Standard \& Poor's") raised our corporate credit rating to BB from BB-, in response to our declining debt levels and modest earnings growth. Standard \& Poor's also raised the rating on the Revolving Loan Facility to BBB- from BB+, the $6.375 \%$ Senior Notes to BB from BB- and the $8 \%$ Senior Notes to BB from BB-.
There have been no other significant changes in the financing arrangements from those described in our Annual Report on Form 10-K for the year ended December 29, 2012.
Off-Balance Sheet Arrangements
We do not have any off-balance sheet arrangements within the meaning of Item 303(a)(4) of SEC Regulation S-K. Critical Accounting Policies and Estimates
We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial condition in conformity with accounting principles generally accepted in the United States. We apply these accounting policies in a consistent manner. Our significant accounting policies are discussed in Note 2, titled "Summary of Significant Accounting Policies," to our financial statements included in our Annual Report on Form 10-K for the year ended December 29, 2012.
The application of critical accounting policies requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. These estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. We evaluate these estimates and assumptions on an ongoing basis and may retain outside consultants to assist in our evaluation. If actual results ultimately differ from previous estimates, the revisions are included in results of operations in the period in which the actual amounts become known. The critical accounting policies that involve the most significant management judgments and estimates used in preparation of our financial statements, or are the most sensitive to change from outside factors, are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 29, 2012. There have been no material changes in these policies from those described in our Annual Report on Form 10-K for the year ended December 29, 2012.
Recently Issued Accounting Pronouncements
Disclosures About Offsetting Assets and Liabilities
In December 2011, the FASB issued new accounting rules related to new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new rules are effective for us in the first quarter of 2014 with retrospective application required. We do not expect the adoption of the new accounting rules to have a material effect on our financial condition, results of operations or cash flows.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk
There have been no significant changes in our market risk exposures from those described in Item 7A of our Annual Report on Form 10-K for the year ended December 29, 2012.

Item 4. Controls and Procedures
As required by Exchange Act Rule 13a-15(b), our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. In connection with the evaluation required by Exchange Act Rule 13a-15(d), our management, including our Chief Executive Officer and Chief Financial Officer, concluded that no changes in our internal control over financial reporting occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II

## Item 1. Legal Proceedings

Although we are subject to various claims and legal actions that occur from time to time in the ordinary course of our business, we are not party to any pending legal proceedings that we believe could have a material adverse effect on our business, results of operations, financial condition or cash flows.

Item 1A. Risk Factors
The risk factors that affect our business and financial results are discussed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 29, 2012. The following risk factor includes an update to a previously disclosed risk factor. There are no additional material changes to the risk factors previously disclosed, nor have we identified any previously undisclosed risks that could materially adversely affect our business and financial results. Businesses that we may acquire may fail to perform to expectations, and we may be unable to successfully integrate acquired businesses with our existing business.
From time to time, we may evaluate potential acquisition opportunities to support and strengthen our business. For example, on October 7, 2013, we acquired Maidenform. The acquisition and integration of businesses such as Maidenform involve a number of risks.
We may not be able to realize all or a substantial portion of the anticipated benefits of the Maidenform acquisition and other future acquisitions that we may consummate. Maidenform and other future acquired businesses may not achieve expected results of operations, including expected levels of revenues, and may require unanticipated costs and expenditures. In addition, we may not be able to maintain the levels of revenue, earnings or operating efficiency that we and Maidenform have achieved or might achieve separately. Maidenform and other acquired businesses may also subject us to liabilities that we were unable to discover in the course of our due diligence, and our rights to indemnification from the sellers of such other businesses, even if obtained, may not be sufficient to offset the relevant liabilities. In addition, the integration of Maidenform and other newly acquired businesses may be expensive and time-consuming and may not be entirely successful. Integration of the acquired businesses may also place additional pressures on our systems of internal control over financial reporting. The process of integrating the operations of Maidenform or those of any other future acquisition could cause an interruption of, or loss of momentum in, the activities of one or more of our combined businesses and the possible loss of key personnel. If we are unable to successfully integrate Maidenform and other newly acquired businesses or if Maidenform or other acquired businesses fail to produce targeted results, it could have an adverse effect on our results of operations or financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None.
Item 3. Defaults Upon Senior Securities
None.
Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information
None.
Item 6. Exhibits
The exhibits listed in the accompanying Exhibit Index are filed or furnished as part of this Quarterly Report on Form 10-Q.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.
HANESBRANDS INC.
By: $\quad / \mathrm{s} /$ Richard D. Moss
Richard D. Moss
Chief Financial Officer
(Duly authorized officer and principal financial officer)
Date: October 31, 2013
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INDEX TO EXHIBITS

| Exhibit |  |
| :--- | :--- |
| Number | Description |

Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and
Exchange Commission on September 5, 2006).
Articles Supplementary (Junior Participating Preferred Stock, Series A) (incorporated by
reference from Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the
Securities and Exchange Commission on September 5, 2006). Commission on December 15, 2008).
4.1 Fifth Supplemental Indenture (to the 2008 Indenture) dated July 1, 2013 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company.

Sixth Supplemental Indenture (to the 2008 Indenture) dated July 1, 2013 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company.

Seventh Supplemental Indenture (to the 2008 Indenture) dated September 11, 2013 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company.

Eighth Supplemental Indenture (to the 2008 Indenture) dated September 11, 2013 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company.

Ninth Supplemental Indenture (to the 2008 Indenture) dated October 8, 2013 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company.

Tenth Supplemental Indenture (to the 2008 Indenture) dated October 8, 2013 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company.

Form of Severance/Change in Control Agreement entered into by and between Hanesbrands Inc. and certain of its executive officers after December 2010 and schedule of all such agreements with current executive officers*
$31.1 \quad$ Certification of Richard A. Noll, Chief Executive Officer.
Certification of Richard D. Moss, Chief Financial Officer.
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF XBRL Taxonomy Extension Definition Linkbase Document

* Agreement relates to executive compensation.

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