Hanesbrands Inc.
Form 10-Q
April 25, 2014
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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 March 29, 2014
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-32891
Hanesbrands Inc.
(Exact name of registrant as specified in its charter)

Maryland
(State of incorporation)

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

27105
(Zip code)

1000 East Hanes Mill Road
Winston-Salem, North Carolina
(Address of principal executive office)
(336) 519-8080
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No * Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 $x \quad$ Accelerated filer
Non-accelerated filer $\quad$ (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 April 18, 2014, there were $99,576,802$ shares of the registrant's common stock outstanding.

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Trademarks, Trade Names and Service Marks
We 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, Maidenform,JMS/Just My Size, L'eggs, Flexees, barely there, Wonderbra, Gear for Sports, Lilyette, Zorba, Rinbros and Sol y Oromarks, which may be registered in the United States and other jurisdictions. We do not own any trademark, tradename or service mark of any other company 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. More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time 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 28, 2013, 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 28, 2013, 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 |  |
| :--- | :--- | :--- |
|  | March 29, | March 30, |
|  | 2014 | 2013 |
| Net sales | $\$ 1,059,370$ | $\$ 945,461$ |
| Cost of sales | 702,593 | 618,162 |
| Gross profit | 356,777 | 327,299 |
| Selling, general and administrative expenses | 284,989 | 242,156 |
| Operating profit | 71,788 | 85,143 |
| Other expenses | 435 | 464 |
| Interest expense, net | 21,818 | 25,623 |
| Income before income tax expense | 49,535 | 59,056 |
| Income tax expense | 7,975 | 7,677 |
| Net income | $\$ 41,560$ | $\$ 51,379$ |
| Earnings per share: |  |  |
| Basic | $\$ 0.41$ | $\$ 0.52$ |
| Diluted | $\$ 0.41$ | $\$ 0.51$ |

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 |  |
| :--- | :--- | :--- |
|  | March 29, | March 30, |
|  | 2014 | 2013 |
| Net income | $\$ 41,560$ | $\$ 51,379$ |
| Other comprehensive income (loss), net of tax of $\$ 807$ and $\$ 1,496$, respectively | $(781$ | ) 1,356 |
| Comprehensive income | $\$ 40,779$ | $\$ 52,735$ |

See accompanying notes to Condensed Consolidated Financial Statements. 3

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HANESBRANDS INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)
(unaudited)

## Assets

Cash and cash equivalents
Trade accounts receivable, net
March 29, December 28,

Inventories
Deferred tax assets
Other current assets
Total current assets

Property, net
572,575
579,883
Trademarks and other identifiable intangibles, net
372,690
377,751
Goodwill
Deferred tax assets
626,505
626,392

Other noncurrent assets
Total assets
207,758 207,426
53,440 54,930

Liabilities and Stockholders' Equity

| Accounts payable | $\$ 492,357$ | $\$ 466,270$ |
| :--- | :--- | :--- |
| Accrued liabilities | 333,639 | 315,026 |
| Notes payable | 38,488 | 36,192 |
| Accounts Receivable Securitization Facility | 164,879 | 181,790 |
| Total current liabilities | $1,029,363$ | 999,278 |
| Long-term debt | $1,620,000$ | $1,467,000$ |
| Pension and postretirement benefits | 246,938 | 263,819 |
| Other noncurrent liabilities | 131,141 | 129,328 |
| Total liabilities | $3,027,442$ | $2,859,425$ |

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 - 99,576,802 and 99,455,478, respectively 996
Additional paid-in capital
290,661 285,227
Retained earnings
1,192,618 1,181,418
Accumulated other comprehensive loss
(237,798 ) (237,017 )
Total stockholders' equity
1,246,477 1,230,623
Total liabilities and stockholders' equity
$\$ 4,273,919 \quad \$ 4,090,048$

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

|  | $\begin{aligned} & \text { Quarter En } \\ & \text { March } 29 \text {, } \\ & 2014 \end{aligned}$ |  | $\begin{aligned} & \text { March 30, } \\ & 2013 \end{aligned}$ |
| :---: | :---: | :---: | :---: |
| Operating activities: |  |  |  |
| Net income | \$41,560 |  | \$51,379 |
| Adjustments to reconcile net income to net cash from operating activities: |  |  |  |
| Depreciation and amortization of long-lived assets | 23,059 |  | 23,221 |
| Amortization of debt issuance costs | 1,426 |  | 1,679 |
| Stock compensation expense | 3,322 |  | 2,510 |
| Deferred taxes and other | (2,134 | ) | (1,551 |
| Changes in assets and liabilities: |  |  |  |
| Accounts receivable | (34,449 | ) | (44,661 |
| Inventories | (120,142 | ) | (95,192 |
| Other assets | (8,522 | ) | (12,545 |
| Accounts payable | 27,943 |  | 19,087 |
| Accrued liabilities and other | 5,701 |  | (21,835 |
| Net cash from operating activities | (62,236 | ) | (77,908 |
| Investing activities: |  |  |  |
| Purchases of property, plant and equipment | (12,224 | ) | (9,592 |
| Proceeds from sales of assets | 55 |  | 3,062 |
| Net cash from investing activities | (12,169 | ) | (6,530 |
| Financing activities: |  |  |  |
| Borrowings on notes payable | 33,494 |  | 34,210 |
| Repayments on notes payable | (31,016 | ) | (30,571 |
| Borrowings on Accounts Receivable Securitization Facility | 48,172 |  | 51,382 |
| Repayments on Accounts Receivable Securitization Facility | (65,083 | ) | (65,471 |
| Borrowings on Revolving Loan Facility | 1,118,000 |  | 953,000 |
| Repayments on Revolving Loan Facility | (965,000 | ) | (835,500 |
| Cash dividends paid | (29,850 | ) | - |
| Proceeds from stock options exercised | - |  | 4,406 |
| Taxes paid related to net shares settlement of equity awards | (4,631 | ) | (1,163 |
| Excess tax benefit from stock-based compensation | 5,602 |  | 328 |
| Other | 503 |  | 19 |
| Net cash from financing activities | 110,191 |  | 110,640 |
| Effect of changes in foreign exchange rates on cash | (513 | ) | (453 |
| Change in cash and cash equivalents | 35,273 |  | 25,749 |
| Cash and cash equivalents at beginning of year | 115,863 |  | 42,796 |
| Cash and cash equivalents at end of period | \$ 151,136 |  | \$68,545 |

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.
Certain prior year amounts in the Condensed Consolidated Statement of Cash Flows, none of which are material, have been reclassified to conform with the current year presentation. These reclassifications within the statements, which relate to a change in the classification of taxes paid related to net shares settlement of equity awards, had no impact on the Company's results of operations.
(2) Recent Accounting Pronouncements

Disclosures About Offsetting Assets and Liabilities
In December 2011, the Financial Accounting Standards Board (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 were effective for the Company in the first quarter of 2014 with retrospective application required. 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.
Presentation of an Unrecognized Tax Benefit
In July 2013, the FASB issued new accounting rules related to standardizing the financial statement presentation of an unrecognized tax benefit, or a portion thereof, when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new rules are effective for the Company in the first quarter of 2015 and applied prospectively. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company's financial condition, results of operations or cash flows.
Discontinued Operations
In April 2014, the FASB issued new accounting rules related to updating the criteria for reporting discontinued operations and enhancing related disclosures requirements. The new rules are effective for the Company in the first quarter of 2015. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company's financial condition, results of operations or cash flows.
(3) Maidenform Acquisition

In October 2013, the Company acquired $100 \%$ of the outstanding shares of Maidenform Brands, Inc. ("Maidenform") at $\$ 23.50$ per share for a total purchase price of $\$ 580,505$. The acquisition was financed through a combination of cash on hand and short-term borrowing on the Company's revolving credit facility.

Maidenform is a global intimate apparel brand with a portfolio of well-known brands including Maidenform, Flexees and Lilyette. The Company believes the acquisition will create growth and cost savings opportunities and increased scale to serve

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
retailers. Maidenform sourced all of its products from manufacturers, while the Company utilizes its low cost supply chain supplemented by third party manufacturing to maximize the value of Maidenform to retailers and consumers. The allocation of purchase price is preliminary and subject to change. For the quarter ended March 29, 2014, the Company has not recorded any purchase price adjustments. The primary areas of the purchase price that are not yet finalized are related to certain income taxes and residual goodwill. Accordingly, adjustments will be made to the values of the assets acquired and liabilities assumed as additional information is obtained about the facts and circumstances which existed at the valuation date.

## (4)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 |  |
| :--- | :--- | :--- |
|  | March 29, | March 30, |
| Basic weighted average shares outstanding | 2014 | 2013 |
| Effect of potentially dilutive securities: | 100,391 | 99,369 |
| Stock options |  |  |
| Restricted stock units | 1,210 | 1,564 |
| Diluted weighted average shares outstanding | 368 | 527 |
| F | 101,969 | 101,460 |

For the quarters ended March 29, 2014 and March 30, 2013, there were no options or restricted stock units that were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive.
(5) Inventories

Inventories consisted of the following:

|  | March 29, | December 28, |
| :--- | :--- | :--- |
| Raw materials | 2014 | 2013 |
| Work in process | $\$ 184,087$ | $\$ 170,524$ |
| Finished goods | 146,390 | 142,713 |
|  | $1,071,645$ | 970,094 |
|  | $\$ 1,402,122$ | $\$ 1,283,331$ |

(6) Debt

Debt consisted of the following:

|  | Interest | Principal Amount |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Rate as of <br> March 29, <br> 2014 | $\begin{aligned} & \text { March } 29, \\ & 2014 \end{aligned}$ | $\begin{aligned} & \text { December 28, } \\ & 2013 \end{aligned}$ | Maturity Date |
| Revolving Loan Facility | 1.65\% | \$620,000 | \$467,000 | July 2018 |
| 6.375\% Senior Notes | 6.38\% | 1,000,000 | 1,000,000 | December 2020 |
| Accounts Receivable Securitization Facility | 1.21\% | 164,879 | 181,790 | March 2015 |
|  |  | 1,784,879 | 1,648,790 |  |
| Less current maturities |  | 164,879 | 181,790 |  |
|  |  | \$1,620,000 | \$ 1,467,000 |  |

As of March 29, 2014, the Company had $\$ 470,853$ 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 $\$ 9,147$ 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 March 2014, 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, revised certain concentration limits and dilution triggers and extended the termination date to March 2015.
As of March 29, 2014, the Company was in compliance with all financial covenants under its credit facilities. (7) Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss ("AOCI") are as follows:

|  | Cumulative <br> Translation <br> Adjustment |  | Foreign Exchange Contracts |  | Defined <br> Benefit Plan |  | Income Tax |  | Accumulated Other Comprehensive Loss |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Balance at December 28, 2013 | \$(21,928 | ) | \$2,042 |  | \$(357,503 |  | \$140,372 |  | \$ (237,017 |
| Amounts reclassified from accumulated other comprehensive loss | - |  | (675 | ) | 2,601 |  | (751 | ) | 1,175 |
| Current-period other comprehensive income (loss) activity | (2,042 | ) | 142 |  | - |  | (56 | ) | (1,956 |
| Balance at March 29, 2014 | \$(23,970 | ) | \$1,509 |  | \$ (354,902 |  | \$139,565 |  | \$ 237,798 |

The Company had the following reclassifications out of Accumulated other comprehensive loss:
Amount of Reclassification

Component of AOCI

Gain (loss) on foreign exchange contracts
Gain (loss) on foreign exchange contracts
Net of tax
Amortization of deferred actuarial loss and prior service cost
Amortization of deferred actuarial loss and prior service
cost
Net of tax
Total reclassifications
from AOCI

| $\left.\begin{array}{lll}\text { Location of } & \text { from AOCI } & \\ \text { Reclassification into } & \begin{array}{l}\text { Quarter Ended } \\ \text { March 29, }\end{array} & \text { March 30, } \\ \text { Income } & 2014 & 2013 \\ & \$ 675 & \$(42 \\ \text { Cost of sales } & (269 & ) \\ \text { Income tax } & 406 & (25\end{array}\right)$ |  |  |
| :--- | :--- | :--- |
|  |  |  |

Selling, general and
administrative expenses $(2,601 \quad)(3,862 \quad)$
$\left.\begin{array}{llll}\text { Income tax } & 1,020 & 1,540 \\ (1,581 & ) & (2,322\end{array}\right)$
(8)Financial Instruments and Risk Management

The Company uses forward foreign exchange contracts to manage its exposures to movements in foreign exchange rates. As of March 29, 2014, the notional U.S. dollar equivalent of commitments to sell and purchase foreign currencies within the Company's derivative portfolio was $\$ 68,985$ and $\$ 10,346$ respectively, primarily consisting of contracts hedging exposures to the Mexican peso, Canadian dollar, Australian dollar, Brazilian real and Japanese yen.

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

|  | Fair Value |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Balance Sheet Location | $\begin{aligned} & \text { March } 29, \\ & 2014 \end{aligned}$ |  | $\begin{aligned} & \text { December 28, } \\ & 2013 \end{aligned}$ |
| Hedges | Other current assets | \$472 |  | \$32 |
| Non-hedges | Other current assets | 330 |  | 970 |
| Total derivative assets |  | 802 |  | 1,002 |
| Hedges | Accrued liabilities | (556 | ) | - |
| Non-hedges | Accrued liabilities | (457 |  | (28 ) |
| Total derivative liabilities |  | (1,013 | ) | (28 ) |
| Net derivative asset (liability) |  | \$(211 | ) | \$974 |

## 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 gain from Accumulated other comprehensive loss of approximately $\$ 695$.
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:


|  | Quarter Ended |  |
| :--- | :--- | :--- |
|  | March 29, | March 30, |
| Foreign exchange contracts | Cost of sales | 2014 |
| 9 |  | $\$ 675$ |

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

## 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 | Amount of Gain (Loss) <br> Recognized in Income <br> Recognized in Income <br> Quarter Ended |  |
| :--- | :--- | :--- |
| on | March 29, | March 30, |
| Derivative | 2014 | 2013 |
| Selling, general and <br> administrative expenses | $\$(50$ | $)$ |

(9) Fair Value of Assets and Liabilities

As of March 29, 2014, 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 March 29, 2014 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 March 29, 2014. As of and during the quarter ended March 29, 2014, 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.

Foreign exchange derivative contracts
Foreign exchange derivative contracts

Deferred compensation plan liability
Total


[^0]
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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

Deferred compensation plan liability
Total


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 March 29, 2014 and December 28, 2013. The carrying amount of trade accounts receivable includes allowance for doubtful accounts, chargebacks and other deductions of $\$ 21,247$ and $\$ 13,336$ as of March 29, 2014 and December 28, 2013, respectively. The fair value of debt, which is classified as a Level 2 liability, was $\$ 1,880,529$ and $\$ 1,744,115$ as of March 29, 2014 and December 28, 2013 and had a carrying value of $\$ 1,784,879$ and $\$ 1,648,790$, 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 March 29, 2014 and December 28,2013 , primarily due to the short-term nature of these instruments.
(10) Income Taxes

The Company's effective income tax rate was $16 \%$ and $13 \%$ for the quarters ended March 29, 2014 and March 30, 2013, respectively. The higher effective income tax rate for the quarter ended March 29, 2014 compared to the quarter ended March 30 , 2013 was primarily attributable to the benefit of approximately $\$ 6,000$ in the quarter ended March 30, 2013 related to the retroactive application of the American Taxpayer Relief Act of 2012 that was signed into law in January 2013. The benefit was partially offset by a lower proportion of earnings attributed to domestic subsidiaries, which are taxed at rates higher than foreign subsidiaries, for the quarter ended March 29, 2014 as compared to the quarter ended March 30, 2013.
(11) Dividends

As part of the Company's cash deployment strategy, in April 2014 the Company's Board of Directors authorized a regular quarterly dividend of $\$ 0.30$ per share to be paid June 3, 2014 to stockholders of record at the close of business on May 13, 2014. In January 2014, the Board of Directors also declared a dividend of $\$ 0.30$ per share on outstanding common stock which was paid on March 11, 2014.
Cash paid for dividends during the quarters ended March 29, 2014 and March 30, 2013 was $\$ 29,850$ and $\$ 0$, respectively.
(12)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. 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, children's underwear, socks, panties, hosiery and intimates, which includes bras and shapewear.

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
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. 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 28, 2013.

|  | Quarter Ended <br> March 29, | March 30, <br> 2013 |
| :--- | :--- | :--- |
| Net sales: | 2014 |  |
| Innerwear | $\$ 571,154$ | $\$ 497,025$ |
| Activewear | 294,504 | 267,186 |
| Direct to Consumer | 83,714 | 80,083 |
| International | 109,998 | 101,167 |
| Total net sales | $\$ 1,059,370$ | $\$ 945,461$ |

Segment operating profit (loss):
Innerwear $\quad \$ 95,755 \quad \$ 89,742$
Activewear
Direct to Consumer
International
31,995 21,309

Total segment operating profit
(701 ) 132
8,311 2,282
Items not included in segment operating profit:
General corporate expenses
135,360 113,465

Acquisition, integration and other action related charges
Amortization of intangibles
Total operating profit
Other expenses
Interest expense, net
Income before income tax expense

| Quarter Ended |  |
| :--- | :--- |
| March 29, | March 30, |
| 2014 | 2013 |

The results of Maidenform have been included in the Company's consolidated financial statements since the date of acquisition and are reported as part of the Innerwear, Direct to Consumer and International segments based on geographic location and distribution channel. The Company incurred acquisition, integration and other action related charges of $\$ 42,637$ in the first quarter of 2014 , of which $\$ 14,827$ is reported in the "Cost of sales" line and $\$ 27,810$ is reported in the "Selling, general and administrative expenses" line in the Condensed Consolidated Statement of Income.

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

In accordance with the indenture governing the Company's $\$ 1,000,0006.375 \%$ Senior Notes issued on November 9, 2010, as supplemented from time to time, certain of the Company's subsidiaries have guaranteed the Company's obligations under the $6.375 \%$ Senior Notes. 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 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 $6.375 \%$ 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 March 29, 2014

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 before income tax expense (benefit)
Income tax expense (benefit)
Net income
Comprehensive income

| Parent <br> Company | Guarantor <br> Subsidiaries | Non-Guarantor <br> Subsidiaries | Consolidating <br> Entries and <br> Eliminations |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| $\$ 892,330$ | $\$ 219,950$ | $\$ 560,186$ | $\$(613,096$ | $)$ | $\$ 1,059,370$ |
| 721,146 | 133,481 | 430,550 | $(582,584$ | $)$ | 702,593 |
| 171,184 | 86,469 | 129,636 | $(30,512$ | $)$ | 356,777 |
| 190,705 | 70,023 | 26,479 | $(2,218$ | $)$ | 284,989 |
| $(19,521$ | $)$ | 16,446 | 103,157 | $(28,294$ | $)$ |
| 85,065 | 74,860 | - | $(159,925$ | $)$ | - |
| 435 | - | - | - | 435 |  |
| 17,884 | 1,986 | 2,056 | $(108$ | $)$ | 21,818 |
| 47,225 | 89,320 | 101,101 | $(188,111$ | $) 49,535$ |  |
| 5,665 | $(2,314$ | 4,624 | - | 7,975 |  |
| $\$ 41,560$ | $\$ 91,634$ | $\$ 96,477$ | $\$(188,111$ | $) \$ 41,560$ |  |
| $\$ 40,779$ | $\$ 91,634$ | $\$ 94,212$ | $\$(185,846$ | $)$ | $\$ 40,779$ |

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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 Comprehensive Income Quarter Ended March 30, 2013 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Parent <br> Company | Guarantor <br> Subsidiaries | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| Net sales | \$860,755 | \$132,706 | \$ 544,301 | \$(592,301 ) | \$945,461 |
| Cost of sales | 683,857 | 63,478 | 438,987 | (568,160 | 618,162 |
| Gross profit | 176,898 | 69,228 | 105,314 | (24,141 | 327,299 |
| Selling, general and administrative expenses | 173,948 | 38,308 | 31,097 | (1,197 | 242,156 |
| Operating profit | 2,950 | 30,920 | 74,217 | (22,944 ) | 85,143 |
| Equity in earnings of subsidiaries | 75,860 | 49,819 | - | (125,679 ) | - |
| Other expenses | 464 | - | - | - | 464 |
| Interest expense, net | 24,153 | - | 1,470 | - | 25,623 |
| Income before income tax expense | 54,193 | 80,739 | 72,747 | (148,623 ) | 59,056 |
| Income tax expense | 2,814 | 1,375 | 3,488 | - | 7,677 |
| Net income | \$51,379 | \$79,364 | \$ 69,259 | \$(148,623 ) | \$51,379 |
| Comprehensive income (loss) | \$52,735 | \$79,364 | \$ (965 | \$(78,399 ) | \$52,735 |

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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 March 29, 2014 |  |  | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Parent <br> Company | Guarantor <br> Subsidiaries | Non-Guarantor Subsidiaries |  |  |
| Assets |  |  |  |  |  |
| Cash and cash equivalents | \$ 10,241 | \$6,623 | \$ 134,272 | \$- | \$ 151,136 |
| Trade accounts receivable, net | 75,893 | 70,487 | 466,892 | (1,672 ) | 611,600 |
| Inventories | 1,033,902 | 110,300 | 434,207 | (176,287 ) | 1,402,122 |
| Deferred tax assets | 178,944 | 15,373 | 3,330 | - | 197,647 |
| Other current assets | 51,084 | 9,660 | 17,702 | - | 78,446 |
| Total current assets | 1,350,064 | 212,443 | 1,056,403 | (177,959 ) | 2,440,951 |
| Property, net | 82,663 | 48,437 | 441,475 | - | 572,575 |
| Trademarks and other identifiable intangibles, net | 7,422 | 86,067 | 279,201 | - | 372,690 |
| Goodwill | 232,882 | 124,246 | 269,377 | - | 626,505 |
| Investments in subsidiaries | 2,984,119 | 1,608,101 | - | (4,592,220 ) | - |
| Deferred tax assets | 139,620 | 53,317 | 14,821 | - | 207,758 |
| Receivables from related entities | 4,690,503 | 4,074,578 | 1,922,124 | (10,687,205 ) | - |
| Other noncurrent assets | 51,265 | 345 | 1,830 | - | 53,440 |
| Total assets | \$9,538,538 | \$6,207,534 | \$ 3,985,231 | \$(15,457,384) | \$4,273,919 |
| Liabilities and Stockholders' |  |  |  |  |  |
| Equity |  |  |  |  |  |
| Accounts payable | \$302,885 | \$25,821 | \$ 163,651 | \$- | \$492,357 |
| Accrued liabilities | 224,707 | 37,518 | 71,077 | 337 | 333,639 |
| Notes payable | - | - | 38,488 | - | 38,488 |
| Accounts Receivable Securitization Facility | - | - | 164,879 | - | 164,879 |
| Total current liabilities | 527,592 | 63,339 | 438,095 | 337 | 1,029,363 |
| Long-term debt | 1,620,000 | - | - | - | 1,620,000 |
| Pension and postretirement benefits | 238,542 | - | 8,396 | - | 246,938 |
| Payables to related entities | 5,798,952 | 3,042,922 | 1,566,775 | (10,408,649 ) | - |
| Other noncurrent liabilities | 106,975 | 12,943 | 11,223 | - | 131,141 |
| Total liabilities | 8,292,061 | 3,119,204 | 2,024,489 | (10,408,312 ) | 3,027,442 |
| Stockholders' equity | 1,246,477 | 3,088,330 | 1,960,742 | (5,049,072 ) | 1,246,477 |
| Total liabilities and stockholders' equ | \$9,538,538 | \$6,207,534 | \$ 3,985,231 | \$(15,457,384) | \$4,273,919 |

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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 28, 2013 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Parent <br> Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| Assets |  |  |  |  |  |
| Cash and cash equivalents | \$5,695 | \$7,811 | \$ 102,357 | \$- | \$115,863 |
| Trade accounts receivable, net | 44,366 | 69,944 | 465,662 | (1,414 ) | ) 578,558 |
| Inventories | 825,300 | 208,250 | 405,756 | (155,975 ) | ) $1,283,331$ |
| Deferred tax assets | 178,732 | 15,373 | 3,155 | - | 197,260 |
| Other current assets | 37,429 | 14,354 | 16,871 | - | 68,654 |
| Total current assets | 1,091,522 | 315,732 | 993,801 | (157,389 ) | ) $2,243,666$ |
| Property, net | 82,786 | 50,193 | 446,904 | - | 579,883 |
| Trademarks and other identifiable intangibles, net | 8,385 | 88,716 | 280,650 | - | 377,751 |
| Goodwill | 232,882 | 124,247 | 269,263 | - | 626,392 |
| Investments in subsidiaries | 2,881,739 | 1,535,404 | - | (4,417,143 ) | ) - |
| Deferred tax assets | 139,102 | 53,317 | 15,007 | - | 207,426 |
| Receivables from related entities | 4,706,001 | 4,065,909 | 1,987,603 | (10,759,513 ) | ) - |
| Other noncurrent assets | 52,712 | 412 | 1,806 | - | 54,930 |
| Total assets | \$9,195,129 | \$6,233,930 | \$ 3,995,034 | \$(15,334,045) | ) \$4,090,048 |
| Liabilities and Stockholders' |  |  |  |  |  |
| Equity |  |  |  |  |  |
| Accounts payable | \$253,494 | \$61,964 | \$ 150,812 | \$- | \$466,270 |
| Accrued liabilities | 184,653 | 63,906 | 66,497 | (30 ) | ) 315,026 |
| Notes payable | - | - | 36,192 | - | 36,192 |
| Accounts Receivable Securitization Facility | - | - | 181,790 | - | 181,790 |
| Total current liabilities | 438,147 | 125,870 | 435,291 | (30 ) | ) 999,278 |
| Long-term debt | 1,467,000 | - | - | - | 1,467,000 |
| Pension and postretirement benefits | 253,299 | 2,159 | 8,361 | - | 263,819 |
| Payables to related entities | 5,699,670 | 3,114,701 | 1,673,828 | (10,488,199 ) | ) - |
| Other noncurrent liabilities | 106,390 | 11,318 | 11,620 | - | 129,328 |
| Total liabilities | 7,964,506 | 3,254,048 | 2,129,100 | (10,488,229 ) | ) $2,859,425$ |
| Stockholders' equity | 1,230,623 | 2,979,882 | 1,865,934 | (4,845,816 ) | ) $1,230,623$ |
| Total liabilities and stockholders' eq | \$9,195,129 | \$6,233,930 | \$ 3,995,034 | \$(15,334,045) | ) $\$ 4,090,048$ |

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

|  | Parent <br> Company |  | Guarantor <br> Subsidiaries |  | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidate |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net cash from operating activities | \$(16,895 | ) | \$54,176 |  | \$ 60,424 | \$ (159,941 | \$(62,236 | ) |
| Investing activities: |  |  |  |  |  |  |  |  |
| Purchases of property, plant and equipment | (4,164 | ) | (1,454 | ) | (6,606 | - | (12,224 | ) |
| Proceeds from sales of assets | - |  | - |  | 55 | - | 55 |  |
| Net cash from investing activities | (4,164 | ) | (1,454 | ) | (6,551 ) | - | (12,169 | ) |
| Financing activities: |  |  |  |  |  |  |  |  |
| Borrowings on notes payable | - |  | - |  | 33,494 | - | 33,494 |  |
| Repayments on notes payable | - |  | - |  | (31,016 | - | (31,016 | ) |
| Borrowings on Accounts Receivable Securitization Facility | - |  | - |  | 48,172 | - | 48,172 |  |
| Repayments on Accounts Receivable Securitization Facility | - |  | - |  | (65,083 | - | (65,083 | ) |
| Borrowings on Revolving Loan Facility | 1,118,000 |  | - |  | - | - | 1,118,000 |  |
| Repayments on Revolving Loan Facility | (965,000 | ) | - |  | - | - | (965,000 | ) |
| Cash dividends paid | (29,850 | ) | - |  | - | - | (29,850 | ) |
| Taxes paid related to net shares settlement of equity awards | (4,631 | ) | - |  | - | - | (4,631 | ) |
| Excess tax benefit from stock-based compensation | 5,602 |  | - |  | - | - | 5,602 |  |
| Other | 828 |  | - |  | (325 | - | 503 |  |
| Net transactions with related entities | (99,344 | ) | (53,910 | ) | (6,687 | 159,941 | - |  |
| Net cash from financing activities | 25,605 |  | (53,910 | ) | (21,445 | 159,941 | 110,191 |  |
| Effect of changes in foreign exchange rates on cash | - |  | - |  | (513 | - | (513 |  |
| Change in cash and cash equivalents | 4,546 |  | (1,188 | ) | 31,915 | - | 35,273 |  |
| Cash and cash equivalents at beginning of year | 5,695 |  | 7,811 |  | 102,357 | - | 115,863 |  |
| Cash and cash equivalents at end of period | \$10,241 |  | \$6,623 |  | \$ 134,272 | \$- | \$151,136 |  |

Net cash from operating activities Investing activities:
Purchases of property, plant and equipment
Proceeds from sales of assets
Net cash from investing activities
Financing activities:
settlement of equity awards
Excess tax benefit from stock-based compensation
Other
Net transactions with related entities
Net cash from financing activities
Effect of changes in foreign exchange
rates on cash
Change in cash and cash equivalents
Cash and cash equivalents at beginning
of year
Cash and cash equivalents at end of period

Condensed Consolidating Statement of Cash Flows Quarter Ended March 29, 2014

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

Net cash from operating activities
Condensed Consolidating Statement of Cash Flows
Quarter Ended March 30, 2013

|  | $\begin{array}{llll}\text { Parent } \\ \text { Company }\end{array}$ | $\begin{array}{l}\text { Guarantor } \\ \text { Subsidiaries }\end{array}$ | $\begin{array}{l}\text { Non-Guarantor } \\ \text { Subsidiaries }\end{array}$ |  | $\begin{array}{l}\text { Consolidating } \\ \text { Entries and } \\ \text { Eliminations }\end{array}$ | Consolidated |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |$)$

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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 28, 2013, 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 those 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 28, 2013.

## Overview

We are a consumer goods company with a portfolio of leading apparel brands, including Hanes, Champion, Bali, Playtex, Maidenform, JMS/Just My Size, L'eggs, Flexees, barely there, Wonderbra, Gear for Sports, Lilyette, Zorba, Rinbros and Sol y Oro. We design, manufacture, source and sell a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, children's underwear, 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. 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.
Highlights from the First Quarter Ended March 29, 2014
Key financial highlights during the quarter are as follows:
Total net sales in the first quarter of 2014 were $\$ 1.1$ billion, compared with $\$ 945$ million in the same quarter of 2013, representing a $12 \%$ increase.
Operating profit was $\$ 72$ million in the first quarter of 2014, compared with $\$ 85$ million in the same quarter of 2013. As a percentage of sales, operating profit was $6.8 \%$ in the first quarter of 2014 compared to $9.0 \%$ in the same quarter of 2013.
Diluted earnings per share was $\$ 0.41$ in the first quarter of 2014, compared with diluted earnings per share of $\$ 0.51$ in the same quarter of 2013.
Outlook
For the full year 2014, we expect net sales of slightly less than $\$ 5.1$ billion, including approximately $\$ 500$ million contributed by Maidenform.
Interest and other related expense is expected to be approximately $\$ 85$ million for the full year, including approximately $\$ 10$ million from higher debt balances associated with the Maidenform acquisition. We expect our full year tax rate to be in the low teens with slightly higher rates in the first half of the year. We expect cash flow from operations to be $\$ 475$ million to $\$ 575$ million for the full year. 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. 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 January 2014 our Board of Directors authorized a regular quarterly dividend of $\$ 0.30$ per share which was paid in March 2014. Additionally, the Board of Directors authorized another regular quarterly dividend of $\$ 0.30$ per share in April 2014, to be paid in June 2014.
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 the back-to-school 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

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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, weather, 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 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. Condensed Consolidated Results of Operations - First Quarter Ended March 29, 2014 Compared with First Quarter Ended March 30, 2013

Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating profit
Other expenses
Interest expense, net
Income before income tax expense
Income tax expense
Net income

| Quarter Ended <br> March 29, | March 30, <br> 2014 <br> (dollars in thousands) | Higher <br> (Lower) | Percent <br> Change |  |
| :--- | :--- | :--- | :--- | :--- |
| $\$ 1,059,370$ | $\$ 945,461$ | $\$ 113,909$ | 12.0 | $\%$ |
| 702,593 | 618,162 | 84,431 | 13.7 |  |
| 356,777 | 327,299 | 29,478 | 9.0 |  |
| 284,989 | 242,156 | 42,833 | 17.7 |  |
| 71,788 | 85,143 | $(13,355$ | $)$ | $(15.7$ |
| 435 | 464 | $(29$ | $)$ | $(6.3$ |
| 21,818 | 25,623 | $(3,805$ | $)$ | $(14.8$ |
| 49,535 | 59,056 | $(9,521$ | $)$ | $(16.1$ |
| 7,975 | 7,677 | 298 | 3.9 | $)$ |
| $\$ 41,560$ | $\$ 51,379$ | $\$(9,819$ | $)$ | $(19.1$ |

Net Sales
Net sales increased $12 \%$ during the first quarter primarily due to the acquisition of Maidenform in October 2013, which added an incremental $\$ 125$ million of net sales in the first quarter of 2014. Net sales were higher ( $10 \%$ ) in our Activewear segment as we continue to secure net space gains at retailers through our Innovate-to-Elevate strategy, which helps drive core-product and new-product success. Offsetting the higher net sales were unfavorable foreign currency exchange rates and a soft retail environment disrupted frequently by extreme weather, particularly within our intimate apparel category. Excluding the impact of unfavorable foreign currency exchange rates, consolidated net sales and International segment net sales increased $13 \%$ and $19 \%$, respectively.
Gross Profit

## Edgar Filing: Hanesbrands Inc. - Form 10-Q

Our gross profit was higher for the first quarter of 2014 as compared to the same quarter of 2013 as we improved our gross profit across all segments. The increase in gross profit was attributable to our Innovate-to-Elevate strategy, which combines our brand power, our innovation platforms and our low cost supply chain to drive margin expansion by increasing our price per unit and reducing our cost per unit through supply chain efficiencies. Included with gross profit in the first quarter of 2014 are charges of $\$ 15$ million related to the Maidenform acquisition and integration and other action related costs related primarily to supply chain optimization and regional alignment of commercial operations.

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Selling, General and Administrative Expenses
As a percentage of net sales, our selling, general and administrative expenses was $26.9 \%$ in the first quarter of 2014 compared to $25.6 \%$ in the first quarter of 2013. The higher selling, general and administrative expenses were attributable to charges of $\$ 28$ million related to Maidenform acquisition, integration and other action related costs related primarily to supply chain optimization and regional alignment of commercial operations. Additionally, we incurred higher distribution costs due to increased sales volume and higher planned media spending in the first quarter of 2014 compared to the first quarter of 2013.
Other Highlights
Interest Expense - Interest expense was lower by $\$ 4$ million in the first quarter of 2014 compared to the first quarter of 2013 primarily due to the redemption of the $8 \%$ Senior Notes in the fourth quarter of 2013 and a lower weighted average interest rate. Our weighted average interest rate on our outstanding debt was $4.12 \%$ during the first quarter of 2014, compared to $5.46 \%$ in the first quarter of 2013.
Income Tax Expense - Our effective income tax rate was $16 \%$ and $13 \%$ for the first quarter of 2014 and the first quarter of 2013, respectively. The higher effective income tax rate was primarily attributable to the benefit of approximately $\$ 6$ million 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. The higher effective income tax rate was partially offset by a lower proportion of earnings attributed to domestic subsidiaries, which are taxed at rates higher than foreign subsidiaries, for the first quarter of 2014 as compared to the first quarter of 2013.
Operating Results by Business Segment — First Quarter Ended March 29, 2014 Compared with First Quarter Ended March 30, 2013

|  | Net Sales Quarter Ended |  | Operating Profit (Loss) <br> Quarter Ended |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  |  |
|  | $\begin{aligned} & \text { March 29, } \\ & 2014 \end{aligned}$ | $\begin{aligned} & \text { March 30, } \\ & 2013 \end{aligned}$ | $\begin{aligned} & \text { March 29, } \\ & 2014 \end{aligned}$ |  | $\begin{aligned} & \text { March 30, } \\ & 2013 \end{aligned}$ |
|  | (dollars in thousands) |  |  |  |  |
| Innerwear | \$571,154 | \$497,025 | \$95,755 |  | \$89,742 |
| Activewear | 294,504 | 267,186 | 31,995 |  | 21,309 |
| Direct to Consumer | 83,714 | 80,083 | (701 | ) | 132 |
| International | 109,998 | 101,167 | 8,311 |  | 2,282 |
| Corporate | - | - | (63,572 | ) | (28,322 |
| Total | \$ 1,059,370 | \$945,461 | \$71,788 |  | \$85,143 |
| Innerwear |  |  |  |  |  |
|  | Quarter End |  |  |  |  |
|  | March 29, | March 30, | Higher |  | Percent |
|  | 2014 | 2013 | (Lower) |  | Change |
|  | (dollars in th | sands) |  |  |  |
| Net sales | \$571,154 | \$497,025 | \$74,129 |  | 14.9 |
| Segment operating profit | 95,755 | 89,742 | 6,013 |  | 6.7 |

Innerwear net sales were $\$ 74$ million higher in the first quarter of 2014 compared to the same quarter in 2013. The higher net sales were driven primarily by incremental sales of Maidenform products and higher sales in our basics category due to higher unit sales volume for our socks and panties categories, partially offset by a soft retail environment for our intimate apparel category, resulting in lower unit sales volume.
Our Innovate-to-Elevate strategy continues to positively impact our Innerwear segment margins as we are able to increase our price per unit with product innovations and reduce our cost per unit through supply chain efficiencies. Offsetting the improvement was lower sales volume within our intimate apparel category and higher trade spending.

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Activewear

| Net sales | $\$ 294,504$ | $\$ 267,186$ | $\$ 27,318$ | 10.2 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Segment operating profit | 31,995 | 21,309 | 10,686 | 50.1 |  |

The higher net sales in our Activewear segment is primarily attributable to net space gains and higher unit sales volume for Champion products in our retail channel. Champion benefited from innovative platforms such as Vapor performance products and Flexible Fit technology as it increased retail space. Additionally, we had higher net sales of our branded printwear category and Gear for Sports licensed apparel due to favorable product sales mix.
Activewear segment operating margin improved due to higher sales volume and a favorable product sales mix within our Champion brand. Our Innovate-to-Elevate strategy continues to positively impact our Activewear segment margins as we are able to increase our price per unit with product innovations and reduce our cost per unit through supply chain efficiencies. The margin improvement was partially offset by higher planned media spending in the first quarter of 2014 compared to the first quarter of 2013.
Direct to Consumer

| Net sales | $\$ 83,714$ | $\$ 80,083$ | $\$ 3,631$ | 4.5 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Segment operating profit (loss) | $(701$ | $)$ | 132 | $(833$ | ) NM |

Direct to Consumer segment net sales were higher due to the addition of Maidenform sales. Due to unusually high weather-related temporary store closures, comparable store sales were $4 \%$ lower in the first quarter of 2014 compared to the same period of 2013.
Direct to Consumer segment operating margin declined 100 basis points due to lower sales volume resulting primarily from the weather-related temporary store closures.
International

| Net sales | $\$ 109,998$ | $\$ 101,167$ | $\$ 8,831$ | 8.7 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Segment operating profit | 8,311 | 2,282 | 6,029 | 264.2 |  |

Sales in the International segment were higher primarily due to the addition of Maidenform sales and higher net sales in Canada as a result of space gains, partially offset by an unfavorable impact of foreign exchange rates. Excluding the unfavorable impact of foreign exchange rates, International segment net sales were $19 \%$ higher.
International segment operating margin increased 530 basis points to $7.6 \%$ primarily due to higher sales volume, partially offset by foreign currency exchange rates.
Corporate
Corporate expenses were higher in the first quarter of 2014 compared to the first quarter of 2013 primarily due to acquisition, integration and other action related charges of $\$ 43$ million.
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
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accounts receivable securitization facility (the "Accounts Receivable Securitization Facility") and our international loan facilities.
At March 29, 2014, we had $\$ 471$ million of borrowing availability under our Revolving Loan Facility (after taking into account outstanding letters of credit), $\$ 89$ million of borrowing availability under our international loan facilities, $\$ 151$ 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 during the first half of the year and generate most of our cash flow in the second half of the year. We expect our cash deployment strategy in the future will include a mix of dividends, bolt-on acquisitions and share repurchases.

## Dividends

As part of our cash deployment strategy, in January 2014 our Board of Directors authorized a regular quarterly dividend of $\$ 0.30$ per share which was paid in March 2014. In April 2014, our Board of Directors authorized a regular quarterly dividend of $\$ 0.30$ per share to be paid June 3, 2014 to stockholders of record at the close of business on May 13, 2014.
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, repurchases of our stock and regular quarterly dividend payments. 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 28, 2013.
Sources and Uses of Our Cash
The information presented below regarding the sources and uses of our cash flows for the quarters ended March 29, 2014 and March 30, 2013 was derived from our condensed consolidated financial statements.

| Quarter Ended |  |
| :---: | :---: |
| March 29, | March 30, |
| 2014 | 2013 |
| (dollars in thousands) |  |
| \$(62,236 | ) \$(77,908 |
| (12,169 | (6,530 |
| 110,191 | 110,640 |
| (513 | (453 |
| 35,273 | 25,749 |
| 115,863 | 42,796 |
| \$151,136 | \$68,545 |

Operating activities
Investing activities
Financing activities
Effect of changes in foreign currency exchange rates on cash
Change in cash and cash equivalents
Cash and cash equivalents at beginning of year
Cash and cash equivalents at end of period
\$ 151,136 \$68,545
Our overall liquidity is primarily driven by our strong cash flow provided by operating activities, which is dependent on net income, as well as changes in our working capital. As compared to prior year, the lower net cash used in operating activities is primarily attributable to changes in working capital, specifically related to accounts receivable, accounts payable and accrued liabilities, partially offset by an increase in inventory and lower net income. We typically build inventory unit levels in the first quarter to support the back-to-school shopping season.
The higher net cash used in investing activities resulted from higher net capital expenditures. Financing activities were relatively flat compared to prior year. Included within financing activities are cash dividends paid during the first quarter of 2014 of $\$ 30$ million.
Financing Arrangements

In March 2014, we amended the Accounts Receivable Securitization Facility. This amendment decreased certain fee rates, revised certain concentration limits and dilution triggers and extended the termination date to March 2015.

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As of March 29, 2014, 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 28, 2013 or other SEC filings could cause noncompliance.
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 28, 2013.
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, "Summary of Significant Accounting Policies," to our financial statements included in our Annual Report on Form 10-K for the year ended December 28, 2013.
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 28, 2013. 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 28, 2013.
Recently Issued Accounting Pronouncements
Presentation of an Unrecognized Tax Benefit
In July 2013, the FASB issued new accounting rules related to standardizing the financial statement presentation of an unrecognized tax benefit, or a portion thereof, when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new rules are effective for us in the first quarter of 2015 and applied prospectively. We do not expect the adoption of the new accounting rules to have a material impact on our financial condition, results of operations or cash flows.
Discontinued Operations
In April 2014, the FASB issued new accounting rules related to updating the criteria for reporting discontinued operations and enhancing related disclosures requirements. The new rules are effective for us in the first quarter of 2015. We do not expect the adoption of the new accounting rules to have a material impact on our financial condition, results of operations or cash flows.
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 28, 2013.
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.

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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 $10-\mathrm{K}$ for the fiscal year ended December 28, 2013. There are no 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.

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: April 25, 2014
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INDEX TO EXHIBITS

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

3.1 \(\left.\begin{array}{l}Articles of Amendment and Restatement of Hanesbrands Inc. (incorporated by reference from <br>
Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and <br>
Exchange Commission on September 5, 2006). <br>
Articles Supplementary (Junior Participating Preferred Stock, Series A) (incorporated by <br>
reference from Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the <br>
Securities and Exchange Commission on September 5, 2006). <br>

Amended and Restated Bylaws of Hanesbrands Inc. (incorporated by reference from Exhibit\end{array}\right\}\)| 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange |
| :--- |
| Commission on December 15, 2008). |
| Amendment No. 11 dated as of March 14, 2014 among Hanesbrands Inc., HBI Receivables |
| LLC, Regency Assets Limited and PNC Bank, N.A., as conduit purchasers and committed |
| purchasers, HSBC Securities (USA) Inc. and PNC Bank, N.A., as managing agents, and |

31.1 Certification of Richard A. Noll, Chief Executive Officer.
31.2 Certification of Richard D. Moss, Chief Financial Officer.
32.1 Section 1350 Certification of Richard A. Noll, Chief Executive Officer.
32.2 Section 1350 Certification of Richard D. Moss, Chief Financial Officer.
101.INS XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
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

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