

Hanesbrands Inc.  
Form 10-Q  
November 05, 2009

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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 October 3, 2009  
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.)*

**1000 East Hanes Mill Road**  
**Winston-Salem, North Carolina**  
*(Address of principal executive office)*

**27105**  
*(Zip code)*

**(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  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  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   
Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company

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

As of November 2, 2009, there were 95,149,727 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 the operation of our business. Some of the more important trademarks that we own or have rights to use that appear in this Quarterly Report on Form 10-Q include the *Hanes*, *Champion*, *C9 by Champion*, *Playtex*, *Bali*, *L eggs*, *Just My Size*, *barely there*, *Wonderbra*, *Stedman*, *Outer Banks*, *Zorba*, *Rinbros* and *Duofold* marks, which may be registered in the United States and other jurisdictions. We do not own any trademark, trade name 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 expressions. The particular, information appearing under Management's Discussion and Analysis of Financial Condition and Results of Operations includes 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 and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or 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 January 3, 2009, particularly under the caption Risk Factors.

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 January 3, 2009, particularly under the caption Risk Factors. We undertake no obligation to update or revise forward-looking statements 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 special reports, proxy statements and other information with the SEC. You can inspect, read and copy these reports, proxy statements and other information at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information regarding the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Web site at [www.sec.gov](http://www.sec.gov) that makes available reports, proxy statements and other information regarding issuers that file electronically.

We make available free of charge at [www.hanesbrands.com](http://www.hanesbrands.com) (in the Investors section) copies of materials we file with, or furnish to, the SEC. By referring to our Web site, [www.hanesbrands.com](http://www.hanesbrands.com), we do not incorporate our Web site or its contents into this Quarterly Report on Form 10-Q.

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

	Quarter Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Net sales	\$ 1,058,673	\$ 1,153,635	\$ 2,902,536	\$ 3,213,653
Cost of sales	701,993	811,851	1,960,589	2,145,949
Gross profit	356,680	341,784	941,947	1,067,704
Selling, general and administrative expenses	248,267	255,228	702,204	776,267
Restructuring	15,104	28,355	46,319	32,355
Operating profit	93,309	58,201	193,424	259,082
Other expenses	2,423		6,537	
Interest expense, net	42,941	37,253	124,548	115,282
Income before income tax expense	47,945	20,948	62,339	143,800
Income tax expense	6,807	5,028	9,974	34,512
Net income	\$ 41,138	\$ 15,920	\$ 52,365	\$ 109,288
Earnings per share:				
Basic	\$ 0.43	\$ 0.17	\$ 0.55	\$ 1.16
Diluted	\$ 0.43	\$ 0.17	\$ 0.55	\$ 1.14
Weighted average shares outstanding:				
Basic	95,247	93,992	94,880	94,283
Diluted	96,422	95,018	95,469	95,483

See accompanying notes to Condensed Consolidated Financial Statements.

**Table of Contents****HANESBRANDS INC.**

**Condensed Consolidated Balance Sheets**  
**(in thousands, except share and per share amounts)**  
**(unaudited)**

	<b>October 3, 2009</b>	<b>January 3, 2009</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 38,617	\$ 67,342
Trade accounts receivable less allowances of \$25,392 at October 3, 2009 and \$21,897 at January 3, 2009	538,540	404,930
Inventories	1,137,077	1,290,530
Deferred tax assets and other current assets	324,352	347,523
<b>Total current assets</b>	<b>2,038,586</b>	<b>2,110,325</b>
Property, net	612,911	588,189
Trademarks and other identifiable intangibles, net	138,891	147,443
Goodwill	322,002	322,002
Deferred tax assets and other noncurrent assets	379,523	366,090
<b>Total assets</b>	<b>\$ 3,491,913</b>	<b>\$ 3,534,049</b>
<b>Liabilities and Stockholders Equity</b>		
Accounts payable	\$ 292,843	\$ 325,518
Accrued liabilities	319,580	315,392
Notes payable	62,158	61,734
Accounts Receivable Securitization Facility	249,043	45,640
<b>Total current liabilities</b>	<b>923,624</b>	<b>748,284</b>
Long-term debt	1,793,680	2,130,907
Other noncurrent liabilities	481,425	469,703
<b>Total liabilities</b>	<b>3,198,729</b>	<b>3,348,894</b>
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 95,141,595 at October 3, 2009 and 93,520,132 at January 3, 2009	951	935
Additional paid-in capital	282,794	248,167
Retained earnings	269,887	217,522
Accumulated other comprehensive loss	(260,448)	(281,469)

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Total stockholders' equity	293,184	185,155
Total liabilities and stockholders' equity	\$ 3,491,913	\$ 3,534,049

See accompanying notes to Condensed Consolidated Financial Statements.



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**Condensed Consolidated Statements of Cash Flows**  
**(in thousands)**  
**(unaudited)**

	<b>Nine Months Ended</b>	
	<b>October 3, 2009</b>	<b>September 27, 2008</b>
Operating activities:		
Net income	\$ 52,365	\$ 109,288
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	57,476	68,930
Amortization of intangibles	9,293	8,683
Restructuring	6,978	(5,591)
Loss on early extinguishment of debt	2,423	
Charges incurred for amendments of credit facilities	4,114	
Amortization of debt issuance costs	7,951	4,523
Stock compensation expense	27,637	23,052
Deferred taxes and other	(8,422)	(6,329)
Changes in assets and liabilities:		
Accounts receivable	(128,636)	11,565
Inventories	159,432	(242,711)
Other assets	21,380	(17,068)
Accounts payable	(33,863)	32,808
Accrued liabilities and other	32,679	(5,771)
Net cash provided by (used in) operating activities	210,807	(18,621)
Investing activities:		
Purchases of property, plant and equipment	(99,709)	(123,319)
Acquisition of business		(10,011)
Proceeds from sales of assets	15,814	24,329
Other	10	(643)
Net cash used in investing activities	(83,885)	(109,644)
Financing activities:		
Borrowings on notes payable	1,169,301	316,958
Repayments on notes payable	(1,168,799)	(265,195)
Payments to amend credit facilities	(22,165)	(69)
Borrowings on revolving loan facility	1,353,525	524,000
Repayments on revolving loan facility	(1,353,525)	(524,000)
Repayment of debt under credit facility	(140,250)	
Borrowings on Accounts Receivable Securitization Facility	176,616	20,944
Repayments on Accounts Receivable Securitization Facility	(170,190)	(20,944)

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Proceeds from stock options exercised	376	2,200
Stock repurchases		(30,275)
Transaction with Sara Lee Corporation		18,000
Other	(824)	(843)
Net cash provided by (used in) financing activities	(155,935)	40,776
Effect of changes in foreign exchange rates on cash	288	(535)
Decrease in cash and cash equivalents	(28,725)	(88,024)
Cash and cash equivalents at beginning of year	67,342	174,236
Cash and cash equivalents at end of period	\$ 38,617	\$ 86,212

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, consisting only of normal recurring adjustments, necessary to present 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. The Company has also evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 5, 2009, the day the financial statements were issued.

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.

**(2) Recent Accounting Pronouncements**

***The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles***

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (the Codification). The Codification is the single source for all authoritative GAAP recognized by the FASB to be applied in the preparation of financial statements of nongovernmental entities issued for periods ending after September 15, 2009. The Codification supersedes all existing non-SEC accounting and reporting standards. The Codification does not change GAAP and did not have a material impact on the Company's financial condition, results of operations or cash flows but resulted in certain additional disclosures.

***Fair Value Measurements***

In September 2006, the FASB issued new accounting guidance for fair value measurements, which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. In February 2008, the FASB approved a one-year deferral of the adoption of the guidance as it relates to certain non-financial assets and liabilities. The Company adopted the provisions for its financial assets and liabilities effective December 30, 2007 and adopted the provisions for its non-financial assets and liabilities effective January 4, 2009. Neither the adoption in the first quarter ended March 29, 2008 for financial assets and liabilities nor the adoption in the first quarter ended April 4, 2009 for non-financial assets and liabilities had a material impact on the financial condition, results of operations or cash flows of the Company, but both adoptions resulted in certain additional disclosures reflected in Note 9.

***Noncontrolling Interests in Consolidated Financial Statements***

In December 2007, the FASB issued new accounting guidance on business combinations and noncontrolling interests in consolidated financial statements. The new guidance improves the relevance,

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**HANESBRANDS INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(dollars and shares in thousands, except per share data)**  
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comparability and transparency of the financial information that a company provides in its consolidated financial statements. The new guidance requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company's equity. It also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; that changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, that any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. The Company adopted the new accounting guidance in the first quarter ended April 4, 2009. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows.

***Disclosures About Derivative Instruments and Hedging Activities***

In March 2008, the FASB issued new accounting guidance which expands the disclosure requirements about an entity's derivative instruments and hedging activities. The Company adopted the new accounting guidance in the first quarter ended April 4, 2009. The adoption did not have a material impact on the Company's financial condition, results of operations or cash flows but resulted in certain additional disclosures reflected in Note 8.

***Interim Disclosures about Fair Value of Financial Instruments***

In April 2009, the FASB issued new accounting guidance for financial instruments. The new accounting guidance requires disclosures about fair value of financial instruments in interim financial statements. These disclosures were previously only required in annual financial statements. The guidance is effective for interim and annual periods ending after June 15, 2009. Since the new guidance only requires additional disclosures, the adoption of the guidance had no material impact on the Company's financial condition, results of operations or cash flows but resulted in certain additional disclosures reflected in Note 9.

***Subsequent Events***

In May 2009, the FASB issued guidance for subsequent events which provides direction on the Company's assessment and disclosure of subsequent events, and clarifies that the Company must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued or are available to be issued for both interim and annual financial reporting periods. The guidance is effective prospectively for the Company's interim and annual periods ending after June 15, 2009. The adoption of the guidance did not have an impact on the Company's financial condition, results of operations or cash flows but resulted in certain additional disclosures reflected in Note 1.

***Employers' Disclosures about Postretirement Benefit Plan Assets***

In December 2008, the FASB issued guidance on the disclosure of postretirement benefit plan assets. The guidance expands the disclosure requirements to include more detailed disclosures about an employer's plan assets, including employer's investment strategies, major categories of plan assets, concentrations of risk within plan assets, and

valuation techniques used to measure the fair value of plan assets. The guidance is effective for fiscal years ending after December 15, 2009. Since the guidance only requires additional disclosures, adoption of the guidance is not expected to have a material impact 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)**  
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*Accounting for Transfers of Financial Assets*