

Hanesbrands Inc.
Form 10-Q
April 29, 2010

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

FORM 10-Q

- b** QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended April 3, 2010
or
o 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):

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of April 26, 2010, there were 95,592,427 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 words. 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 2, 2010, 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 2, 2010, 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 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 website at 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 (in the Investors section) copies of materials we file with, or furnish to, the SEC. By referring to our website, www.hanesbrands.com, we do not incorporate our website 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	
	April 3, 2010	April 4, 2009
Net sales	\$ 927,840	\$ 857,841
Cost of sales	600,410	599,965
Gross profit	327,430	257,876
Selling, general and administrative expenses	241,718	223,238
Restructuring		18,671
Operating profit	85,712	15,967
Other expenses	1,406	3,946
Interest expense, net	37,495	36,800
Income (loss) before income tax expense (benefit)	46,811	(24,779)
Income tax expense (benefit)	10,298	(5,451)
Net income (loss)	\$ 36,513	\$ (19,328)
Earnings (loss) per share:		
Basic	\$ 0.38	\$ (0.20)
Diluted	\$ 0.37	\$ (0.20)
Weighted average shares outstanding:		
Basic	96,326	94,493
Diluted	97,493	94,493

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)

	April 3, 2010	January 2, 2010
Assets		
Cash and cash equivalents	\$ 42,620	\$ 38,943
Trade accounts receivable less allowances of \$30,749 at April 3, 2010 and \$25,776 at January 2, 2010	440,300	450,541
Inventories	1,183,414	1,049,204
Deferred tax assets and other current assets	278,832	283,869
Total current assets	1,945,166	1,822,557
Property, net	587,469	602,826
Trademarks and other identifiable intangibles, net	133,193	136,214
Goodwill	322,002	322,002
Deferred tax assets and other noncurrent assets	452,233	442,965
Total assets	\$ 3,440,063	\$ 3,326,564
Liabilities and Stockholders Equity		
Accounts payable	\$ 373,263	\$ 351,971
Accrued liabilities	290,997	295,635
Notes payable	62,577	66,681
Current portion of debt	145,381	164,688
Total current liabilities	872,218	878,975
Long-term debt	1,781,672	1,727,547
Other noncurrent liabilities	410,069	385,323
Total liabilities	3,063,959	2,991,845
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 95,592,427 at April 3, 2010 and 95,396,967 at January 2, 2010	956	954
Additional paid-in capital	289,589	287,955
Retained earnings	305,317	268,805
Accumulated other comprehensive loss	(219,758)	(222,995)

Total stockholders' equity	376,104	334,719
Total liabilities and stockholders' equity	\$ 3,440,063	\$ 3,326,564

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents**HANESBRANDS INC.**

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

	Quarter Ended	
	April 3, 2010	April 4, 2009
Operating activities:		
Net income (loss)	\$ 36,513	\$ (19,328)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	19,710	20,961
Amortization of intangibles	3,126	3,089
Restructuring		(484)
Write-off on early extinguishment of debt	686	
Charges incurred for amendments of credit facilities		3,946
Amortization of debt issuance costs	3,319	1,869
Amortization of loss on interest rate hedge	4,824	
Stock compensation expense	3,268	9,563
Deferred taxes and other	1,506	(2,798)
Changes in assets and liabilities:		
Accounts receivable	10,771	(21,681)
Inventories	(133,140)	(13,178)
Other assets	3,157	5,586
Accounts payable	20,927	(41,102)
Accrued liabilities and other	(13,629)	(4,419)
Net cash used in operating activities	(38,962)	(57,976)
Investing activities:		
Purchases of property, plant and equipment	(28,224)	(55,733)
Proceeds from sales of assets	40,388	467
Other	(519)	
Net cash provided by (used in) investing activities	11,645	(55,266)
Financing activities:		
Borrowings on notes payable	297,134	549,434
Repayments on notes payable	(301,195)	(540,427)
Payments to amend credit facilities		(20,712)
Borrowings on revolving loan facility	514,500	571,500
Repayments on revolving loan facility	(466,000)	(462,500)
Repayment of debt under 2009 Senior Secured Credit Facility	(1,875)	
Borrowings on Accounts Receivable Securitization Facility	91,000	79,000
Repayments on Accounts Receivable Securitization Facility	(102,807)	(97,705)

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Proceeds from stock options exercised	36	
Other	(76)	(320)
Net cash provided by financing activities	30,717	78,270
Effect of changes in foreign exchange rates on cash	277	(701)
Increase (decrease) in cash and cash equivalents	3,677	(35,673)
Cash and cash equivalents at beginning of year	38,943	67,342
Cash and cash equivalents at end of period	\$ 42,620	\$ 31,669

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.

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.

To reflect a change previously made in the classification of freight expenses payable, a revision to the quarter ended April 4, 2009 Condensed Consolidated Statement of Cash Flows was made to reclassify changes in cash related to these payables from Accounts payable to Accrued liabilities and other. This reclassification had no impact on the Company's previously reported total net cash flows from operating, investing or financing activities.

(2) Recent Accounting Pronouncements

Accounting for Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board ("FASB") issued new accounting rules for transfers of financial assets. The new rules require greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with them and changes the requirements for derecognizing financial assets. The new accounting rules are effective for financial asset transfers occurring after the beginning of the Company's first fiscal year that begins after November 15, 2009. The adoption of these new rules did not have a material impact on the financial condition, results of operations or cash flows of the Company.

Consolidation - Variable Interest Entities

In June 2009, the FASB issued new accounting rules related to the accounting and disclosure requirements for the consolidation of variable interest entities. The new accounting rules are effective for the Company's first fiscal year that begins after November 15, 2009. The adoption of these new rules did not have a material impact on the financial condition, results of operations or cash flows of the Company.

Fair Value Disclosures

In January 2010, the FASB issued new accounting rules related to the disclosure requirements for fair value measurements. The new accounting rules require new disclosures for significant transfers between Levels 1 and 2 of the fair value hierarchy and the activity within Level 3 of the fair value hierarchy. The new accounting rules also clarify existing disclosures regarding the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The new accounting rules are effective for the Company's first interim fiscal period beginning after December 15, 2009, except for the disclosures about

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

purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the disclosures effective for the Company's first interim fiscal period beginning after December 15, 2009 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.

(3) Earnings Per Share

Basic earnings per share (EPS) was computed by dividing net income by the number of weighted average shares of common stock outstanding during the quarters ended April 3, 2010 and April 4, 2009. 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 for the quarters ended April 3, 2010 and April 4, 2009 is as follows:

	Quarter Ended	
	April 3, 2010	April 4, 2009
Basic weighted average shares	96,326	94,493
Effect of potentially dilutive securities:		
Stock options	619	
Restricted stock units	547	
Employee stock purchase plan and other	1	
Diluted weighted average shares	97,493	94,493

For the quarters ended April 3, 2010 and April 4, 2009, 0 and 1,347 restricted stock units, respectively, and options to purchase 2,898 and 5,930 shares of common stock, respectively, were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive. Because the Company reported a net loss for the quarter ended April 4, 2009, the restricted stock units and stock options excluded from the computation of diluted loss per share consisted of all outstanding restricted stock units and stock options, as their effect would have been anti-dilutive.

(4) Inventories

Inventories consisted of the following:

	April 3, 2010	January 2, 2010
Raw materials	\$ 110,158	\$ 106,138
Work in process	126,581	100,686

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Finished goods	946,675	842,380
	\$ 1,183,414	\$ 1,049,204

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HANESBRANDS INC.

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

(5) Trade Accounts Receivable

Allowances for Trade Accounts Receivable

The changes in the Company's allowance for doubtful accounts and allowance for chargebacks and other deductions for the quarter ended April 3, 2010 are as follows:

Allowance for Doubtful Accounts	Allowance for Chargebacks and Other Deductions
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