Hanesbrands Inc.
Form 10-Q
May 07, 2008

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

FORM 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended March 29, 2008
	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	**20-3552316**
(State of incorporation)	*(I.R.S. employer identification no.)*
1000 East Hanes Mill Road Winston-Salem, North Carolina	**27105**
(Address of principal executive office)	*(Zip code)*

(336) 519-4400
(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 þ No o

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.

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of May 1, 2008, there were 94,066,944 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, Playtex, Bali, Just My Size, barely there*, *Wonderbra*, *C9 by Champion*, *L eggs*, *Outer Banks* and *Stedman* 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 e 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, including our Annual Report on Form 10-K for the year ended December 29, 2007.

All forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 29, 2007. 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 public reference facilities the SEC maintains at 100 F Street, N.E., Washington, D.C. 20549.

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. You can also obtain copies of these materials at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Web site at www.sec.gov that makes available reports, proxy statements and other information regarding issuers that file electronically with it. By referring to our Web site, www.hanesbrands.com, we do not incorporate our Web site or its contents into this Quarterly Report on Form 10-Q.

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PART I

Item 1. ***Financial Statements***

HANESBRANDS

Condensed Consolidated Statements of Income
(in thousands, except per share amounts)
(unaudited)

	Quarter Ended March 29, 2008	Quarter Ended March 31, 2007
Net sales	$ 987,847	$ 1,039,894
Cost of sales	642,883	700,215
Gross profit	344,964	339,679
Selling, general and administrative expenses	254,612	254,567
Restructuring	2,558	16,246
Operating profit	87,794	68,866
Interest expense, net	40,394	51,717
Income before income tax expense	47,400	17,149
Income tax expense	11,376	5,145
Net income	$ 36,024	$ 12,004
Earnings per share:		
Basic	$ 0.38	$ 0.12
Diluted	$ 0.38	$ 0.12
Weighted average shares outstanding:		
Basic	94,344	96,475
Diluted	95,610	97,105

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS

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

	March 29, 2008	December 29, 2007
Assets		
Cash and cash equivalents	$ 120,793	$ 174,236
Trade accounts receivable, less allowances of $19,775 at March 29, 2008 and $31,642 at December 29, 2007	541,900	575,069
Inventories	1,223,979	1,117,052
Deferred tax assets and other current assets	238,579	227,977
Total current assets	2,125,251	2,094,334
Property, net	526,498	534,286
Trademarks and other identifiable intangibles, net	155,406	151,266
Goodwill	312,574	310,425
Deferred tax assets and other noncurrent assets	350,410	349,172
Total assets	$ 3,470,139	$ 3,439,483
Liabilities and Stockholders Equity		
Accounts payable	$ 309,867	$ 289,166
Accrued liabilities	359,436	380,239
Notes payable	14,562	19,577
Total current liabilities	683,865	688,982
Long-term debt	2,315,250	2,315,250
Other noncurrent liabilities	159,742	146,347
Total liabilities	3,158,857	3,150,579
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 94,056,351 at March 29, 2008 and 95,232,478 at December 29, 2007	941	954
Additional paid-in capital	204,418	199,019
Retained earnings	146,304	117,849
Accumulated other comprehensive loss	(40,381)	(28,918)
Total stockholders equity	311,282	288,904

Total liabilities and stockholders equity	$	3,470,139	$	3,439,483

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS

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

	Quarter Ended	
	March 29, 2008	March 31, 2007
Operating activities:		
Net income	$ 36,024	$ 12,004
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	23,591	26,610
Amortization of intangibles	2,673	1,560
Restructuring	(1,119)	(633)
Amortization of debt issuance costs	1,506	1,625
Stock compensation expense	6,918	9,564
Deferred taxes and other	(2,871)	(3,833)
Changes in assets and liabilities:		
Accounts receivable	36,183	(24,806)
Inventories	(103,597)	(36,865)
Other assets	(7,061)	15,790
Accounts payable	18,315	10,690
Accrued liabilities	(30,043)	(12,297)
Net cash used in operating activities	(19,481)	(591)
Investing activities:		
Purchases of property and equipment	(27,580)	(7,394)
Proceeds from sales of assets	7,070	4,528
Other		(634)
Net cash used in investing activities	(20,510)	(3,500)
Financing activities:		
Principal payments on capital lease obligations	(263)	(277)
Borrowings on notes payable	17,747	8,992
Repayments on notes payable	(23,295)	(11,204)
Cost of debt issuance		(1,774)
Decrease in bank overdraft		(834)
Proceeds from stock options exercised	339	2,338
Stock repurchases	(8,277)	
Borrowing on accounts receivable securitization	19,220	
Repayments on accounts receivable securitization	(19,220)	
Other	9	

Net cash used in financing activities	(13,740)	(2,759)
Effect of changes in foreign exchange rates on cash	288	167
Decrease in cash and cash equivalents	(53,443)	(6,683)
Cash and cash equivalents at beginning of year	174,236	155,973
Cash and cash equivalents at end of period	$ 120,793	$ 149,290

See accompanying notes to Condensed Consolidated Financial Statements.

HANESBRANDS

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 position 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 financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations, financial position 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 financial statements have been reclassified to conform with the current year presentation. These reclassifications, which relate to changes in the classification of inventory, segment assets, segment depreciation and amortization expense, segment additions to long-lived assets and consolidating financial information, had no impact on the Company s results of operations.

(2) Recently Issued Accounting Pronouncements

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for the Company s financial assets and liabilities on December 30, 2007. The FASB approved a one-year deferral of the adoption of SFAS 157 as it relates to non-financial assets and liabilities with the issuance in February 2008 of FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, as a result of which implementation by the Company is now required on January 4, 2009. The partial adoption of SFAS 157 in the first quarter ended March 29, 2008 had no material impact on the financial condition, results of operations or cash flows of the Company, but resulted in certain additional disclosures reflected in Note 8.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value under generally accepted accounting principles and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of SFAS 159 became effective for the Company on December 30, 2007. As permitted by SFAS 159, the Company elected not to adopt the fair value option.

HANESBRANDS

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

Business Combinations

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a company provides in its financial reports about a business combination and its effects. Under SFAS 141R, a company would be required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at their fair value at the acquisition date. It further requires that research and development assets acquired in a business combination that have no alternative future use be measured at their acquisition-date fair value and then immediately charged to expense, and that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. Among other changes, this statement would also require that negative goodwill be recognized in earnings as a gain attributable to the acquisition, and any deferred tax benefits resulting from a business combination be recognized in income from continuing operations in the period of the combination. The Company is in the process of analyzing the impact of SFAS 141R, which is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a company provides in its consolidated financial statements. SFAS 160 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 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. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not believe that the adoption of SFAS 160 will have a material impact on its results of operations or financial position.

Disclosures About Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 expands the disclosure requirements of FASB Statement No. 133 about an entity s derivative instruments and hedging activities to include more detailed qualitative disclosures and expanded quantitative disclosures. The provisions of SFAS 161 are effective for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact that SFAS 161 will have on its results of operations and financial position.

(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 at March 29, 2008 and March 31, 2007. Diluted EPS was

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

calculated to give effect to all potentially dilutive shares of common stock. The reconciliation of basic to diluted weighted average shares for the quarters ended March 29, 2008 and March 31, 2007 is as follows:

	Quarter Ended	
	March 29, 2008	March 31, 2007
Basic weighted average shares	94,344	96,475
Effect of potentially dilutive securities:		
Stock options	298	171
Restricted stock units	966	459
Employee stock purchase plan	2	
Diluted weighted average shares	95,610	97,105

Options to purchase 2,478 and 2,554 shares of common stock were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive for the quarters ended March 29, 2008 and March 31, 2007, respectively.

(4) Stock-Based Compensation

During the first quarter ended March 29, 2008, the Company granted options to purchase 1,340 shares of common stock pursuant to the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (the Omnibus Plan) at an exercise price of $25.10 per share, which was the closing price of Hanesbrands stock on the date of grant. These options can be exercised over a term of seven years and vest ratably over one to three years. The fair value of each option granted during the first quarter ended March 29, 2008 was estimated as of the date of grant using the Black-Scholes option-pricing model using the following assumptions: volatility of 28%; expected terms of 3.8 4.5 years; dividend yield of 0%; and risk-free interest rates ranging from 2.45% to 2.64%. The Company uses the volatility of peer companies for a period of time that is comparable to the expected life of the option to determine volatility assumptions due to the limited trading history of the Company s common stock since the Company s spin off from Sara Lee Corporation (Sara Lee) on September 5, 2006. The Company utilized the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the first quarter ended March 29, 2008. SEC Staff Accounting Bulletin No. 110, which was issued in December 2007, amends SEC Staff Accounting Bulletin No. 107 and gives a limited extension on using the simplified method for valuing stock option grants to eligible public companies that do not have sufficient historical exercise patterns on options granted to employees. The weighted average fair value of individual options granted during the first quarter ended March 29, 2008 was $7.04.

During the first quarter ended March 29, 2008, the Company granted 540 restricted stock units (RSUs) pursuant to the Omnibus Plan. Upon the achievement of defined service conditions, the RSUs are converted into shares of the Company s common stock on a one-for-one basis and issued to the grantees. All RSUs vest solely upon continued future service to the Company. The cost of these awards is determined using the fair value of the shares on the date of grant, and compensation expense is recognized over the period during which the grantees provide the requisite service to the Company. The grant date fair value of the RSUs was $25.10.

During the first quarter ended March 29, 2008 and March 31, 2007, 34 and 0 shares, respectively, were purchased under the Hanesbrands Inc. Employee Stock Purchase Plan of 2006 (the ESPP) by eligible employees. The Company had 2,330 shares of common stock available for issuance under the ESPP as of March 29, 2008.

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

Over the past several years, the Company has undertaken a variety of restructuring efforts in connection with its consolidation and globalization strategy designed to improve operating efficiencies and lower costs. As a result of these efforts, the Company expects to incur approximately $250,000 in restructuring and related charges over the three year period following the spin off from Sara Lee on September 5, 2006, of which approximately half is expected to be noncash. As of March 29, 2008, the Company has recognized approximately $122,000 in restructuring and related charges related to these efforts since September 5, 2006. Of these charges, approximately $46,000 relates to employee termination and other benefits, approximately $64,000 relates to accelerated depreciation of buildings and equipment for facilities that have been or will be closed, and approximately $12,000 relates to lease termination and other costs. Accelerated depreciation related to the Company s manufacturing facilities and distribution centers that have been or will be closed is reflected in the Cost of sales and Selling, general and administrative expenses lines of the Condensed Consolidated Statements of Income.

The impact of restructuring on income before income tax expense is summarized as follows:

	Quarter Ended	
	March 29, 2008	**March 31, 2007**
Restructuring programs:		
Year ended January 3, 2009 restructuring actions	$ 2,942	$
Year ended December 29, 2007 restructuring actions	2,856	