Hanesbrands Inc.
Form 10-Q
April 26, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 2, 2016
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	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) 519-8080
(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	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of April 22, 2016, there were 377,517,432 shares of the registrant's common stock outstanding.

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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 this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended January 2, 2016, under the caption “Risk Factors,” and available on 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 January 2, 2016, 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	
	April 2, 2016	April 4, 2015
Net sales	$1,219,140	$1,208,921
Cost of sales	761,884	762,690
Gross profit	457,256	446,231
Selling, general and administrative expenses	334,851	356,300
Operating profit	122,405	89,931
Other expenses	649	382
Interest expense, net	31,566	26,887
Income before income tax expense	90,190	62,662
Income tax expense	9,921	10,026
Net income	$80,269	$52,636
Earnings per share:		
Basic	$0.21	$0.13
Diluted	$0.21	$0.13

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	
	April 2, 2016	April 4, 2015
Net income	$80,269	$52,636
Other comprehensive income, net of tax of $1,439 and $3,840, respectively	10,216	4,843
Comprehensive income	$90,485	$57,479

See accompanying notes to Condensed Consolidated Financial Statements.

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

	April 2, 2016	January 2, 2016
Assets		
Cash and cash equivalents	$332,422	$319,169
Trade accounts receivable, net	722,103	680,417
Inventories	1,969,872	1,814,602
Other current assets	93,283	103,679
Total current assets	3,117,680	2,917,867
Property, net	652,126	650,462
Trademarks and other identifiable intangibles, net	711,950	700,515
Goodwill	838,984	834,315
Deferred tax assets	452,709	445,179
Other noncurrent assets	48,612	49,252
Total assets	$5,822,061	$5,597,590
Liabilities and Stockholders' Equity		
Accounts payable	$530,436	$672,972
Accrued liabilities	460,514	460,333
Notes payable	115,237	117,785
Accounts Receivable Securitization Facility	200,000	195,163
Current portion of long-term debt	62,325	57,656
Total current liabilities	1,368,512	1,503,909
Long-term debt	2,963,424	2,232,712
Pension and postretirement benefits	322,586	362,266
Other noncurrent liabilities	215,498	222,812
Total liabilities	4,870,020	4,321,699
Stockholders' equity:		
Preferred stock (50,000,000 authorized shares; $.01 par value)		
Issued and outstanding — None	—	—
Common stock (2,000,000,000 authorized shares; $.01 par value)		
Issued and outstanding — 377,513,184 and 391,652,810, respectively	3,775	3,917
Additional paid-in capital	275,937	277,569
Retained earnings	1,057,046	1,389,338
Accumulated other comprehensive loss	(384,717)	(394,933)
Total stockholders' equity	952,041	1,275,891
Total liabilities and stockholders' equity	$5,822,061	$5,597,590

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Quarter ended	
	April 2, 2016	April 4, 2015
Operating activities:		
Net income	$80,269	$52,636
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization of long-lived assets	22,820	24,573
Amortization of debt issuance costs	1,790	1,690
Stock compensation expense	7,508	4,152
Deferred taxes and other	(8,372)	1,446
Changes in assets and liabilities, net of acquisition of business:		
Accounts receivable	(34,927)	(58,024)
Inventories	(140,393)	(180,352)
Other assets	3,030	(6,166)
Accounts payable	(141,341)	10,534
Accrued pension and postretirement	(37,793)	(98,366)
Accrued liabilities and other	(37,397)	(11,468)
Net cash from operating activities	(284,806)	(259,345)
Investing activities:		
Purchases of property, plant and equipment	(27,859)	(36,368)
Proceeds from sales of assets	15,286	4,735
Acquisition of business, net of cash acquired	(7,062)	—
Net cash from investing activities	(19,635)	(31,633)
Financing activities:		
Borrowings on notes payable	368,778	43,828
Repayments on notes payable	(367,016)	(61,137)
Borrowings on Accounts Receivable Securitization Facility	53,261	79,039
Repayments on Accounts Receivable Securitization Facility	(48,424)	(90,393)
Borrowings on Revolving Loan Facility	1,471,500	1,327,500
Repayments on Revolving Loan Facility	(732,500)	(921,000)
Repayments on Euro Term Loan Facility	—	(974)
Repayments on Term Loan A Facility	(9,063)	—
Repayments on Term Loan B Facility	(1,063)	—
Borrowings on International Debt	2,895	3,352
Repayments on International Debt	(1,728)	(1,913)
Share repurchases	(379,901)	—
Cash dividends paid	(42,683)	(40,083)
Taxes paid related to net shares settlement of equity awards	(837)	(17,982)
Excess tax benefit from stock-based compensation	924	12,833
Debt issuance costs and other	541	684
Net cash from financing activities	314,684	333,754
Effect of changes in foreign exchange rates on cash	3,010	(5,564)

Change in cash and cash equivalents	13,253	37,212
Cash and cash equivalents at beginning of year	319,169	239,855
Cash and cash equivalents at end of period	$332,422	$277,067

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.

Certain prior year amounts in the notes to condensed consolidated financial statements, none of which are material, have been reclassified to conform with the current year presentation. These reclassifications had no impact on the Company’s results of operations.

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 year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. 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

Consolidation

In February 2015, the Financial Accounting Standards Board (the “FASB”) issued an update to their existing consolidation model, which changes the analysis a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new rules were effective for the Company in the first quarter of 2016. The adoption of the new accounting rules did not have an impact on the Company’s financial condition, results of operations or cash flows.

Debt Issuance Costs

In April 2015, the FASB issued new accounting rules, which require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new rules were effective for the Company in the first quarter of 2016. The adoption of the new accounting rules did not have a material impact on the Company’s financial condition, results of operations or cash flows.

Cloud Computing

In April 2015, the FASB issued new accounting rules, related to a customer’s accounting for fees paid in a cloud computing arrangement. The guidance provides clarification on whether a cloud computing arrangement includes a software license. If a software license is included, the customer should account for the license consistent with its accounting for other software licenses. If a software license is not included, the arrangement should be accounted for as a service contract. The new rules were effective for the Company in the first quarter of 2016. The adoption of the new accounting rules did not have a material impact on the Company’s financial condition, results of operations or cash flows.

Fair Value Measurement

In May 2015, the FASB issued an update to their accounting guidance related to fair value measurements. The guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and requires separate disclosure of those investments instead. These disclosures were effective for the Company in the first quarter of 2016. The adoption of the new accounting rules did not 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)
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Measurement Period Adjustments
In September 2015, the FASB issued new accounting rules, which simplify the accounting for measurement period adjustments by eliminating the requirements to restate prior period financial statements for these adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new standard, which should be applied prospectively to measurement period adjustments that occur after the effective date, was effective for the Company in the first quarter of 2016. The adoption of the new accounting rules did not have a material impact on the Company’s financial condition, results of operations or cash flows.
Stock Compensation
In March 2016, the FASB issued new accounting rules related to accounting for stock compensation. The new guidance requires all excess tax benefits and deficiencies to be recognized in income as they occur. The new guidance also changes the cash flow presentation of excess tax benefits, classifying them as operating inflows or outflows. The new standard, which can be applied retrospectively or prospectively, is effective for the Company in the first quarter of 2017. 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 and cash flows.
Inventory
In July 2015, the FASB issued new accounting rules, which require inventory to be recorded at the lower of cost or net realizable value. The new standard will be effective for the Company in the first quarter of 2017. 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.
Revenue from Contracts with Customers
In July 2015, the FASB decided to delay effective dates for the new accounting rules related to revenue recognition for contracts with customers by one year. In March 2016, the FASB issued an update to the accounting rules regarding revenue from contracts with customers, which clarifies revenue recognition when an agent, along with the entity, is involved in providing a good or service to a customer. In April 2016, the FASB issued an additional update, which clarifies the principle for determining whether a good or service is “separately identifiable” and, therefore, should be accounted for separately. The new standard will be effective for the Company in the first quarter of 2018 with retrospective application required. The Company is currently in the process of evaluating the impact of adoption of the new rules on the Company’s financial condition, results of operations and cash flows.
Hedge Accounting
In March 2016, the FASB issued new accounting rules related to hedge accounting, which clarifies that a change in the counterparty to a derivative contract, in and of itself, does not require the dedesignation of a hedging relationship. The new standard, which can be adopted prospectively or on a modified retrospective basis, is effective for the Company in the first quarter of 2018. 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 and cash flows.
Lease Accounting
In February 2016, the FASB issued new accounting rules related to lease accounting, which will require lessees to recognize a right-of-use asset and a lease liability for all leases that are not short-term in nature. The new rules will be effective for the Company in the first quarter of 2019. The Company is currently in the process of evaluating the impact of adoption of the new rules on the Company’s financial condition, results of operations and cash flows.

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HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
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(3) Acquisitions

Knights Apparel

In April 2015, the Company completed the acquisition of Knights Holdco, Inc. (“Knights Apparel”), a leading seller of licensed collegiate logo apparel in the mass retail channel, from Merit Capital Partners in an all cash transaction valued at $192,888 on an enterprise value basis. The Company funded the acquisition with cash on hand and short-term borrowings under its Revolving Loan Facility.

Factors that contribute to the amount of goodwill recognized for the acquisition include the value of the existing work force and cost savings by utilizing the Company’s low-cost supply chain and expected synergies with existing Company functions. Goodwill associated with the acquisition is not tax deductible.

Since January 2, 2016, goodwill decreased by $3,551 as a result of measurement period adjustments to the acquired income tax balances. The purchase price allocation was finalized in the first quarter of 2016.

The acquired assets and assumed liabilities at the date of acquisition (April 6, 2015) include the following:

Cash and cash equivalents	$59
Trade accounts receivable	14,879
Inventories	22,820
Deferred tax assets and other	5,741
Trademarks and other identifiable intangibles	59,950
Total assets acquired	103,449
Accounts payable, accrued liabilities and other	6,807
Deferred tax liabilities and other noncurrent liabilities	18,142
Total liabilities assumed	24,949
Net assets acquired	78,500
Goodwill	114,388
Purchase price	$192,888

(4) Stockholders’ Equity

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	
	April 2, 2016	April 4, 2015
Basic weighted average shares outstanding	386,598	403,578
Effect of potentially dilutive securities:		
Stock options	1,400	3,166
Restricted stock units	1,040	1,498
Employee stock purchase plan and other	5	18
Diluted weighted average shares outstanding	389,043	408,260

For the quarters ended April 2, 2016 and April 4, 2015, there were no options or restricted stock units excluded from the diluted earnings per share calculation because their effect would be anti-dilutive.

For the quarters ended April 2, 2016 and April 4, 2015, the Company declared cash dividends of $0.11 and $0.10 per share, respectively.

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(dollars and shares in thousands, except per share data)

In 2007, the Company's Board of Directors authorized up to 40,000 shares to be repurchased in open-market transactions, and such repurchases are subject to market conditions, legal requirements and other factors. During the quarter ended April 2, 2016, the Company entered into transactions to repurchase 14,243 shares at a weighted average repurchase price of $26.65 per share. The shares were repurchased at a total cost of $379,901. At April 2, 2016, the remaining repurchase authorization totaled 2,261 shares. The program does not obligate the Company to acquire any particular amount of common stock and may be suspended or discontinued at any time at the Company's discretion.

(5) Inventories

Inventories consisted of the following:

	April 2, 2016	January 2, 2016
Raw materials	$162,016	$173,336
Work in process	219,833	200,836
Finished goods	1,588,023	1,440,430
	$1,969,872	$1,814,602

(6) Debt

Debt consisted of the following:

	Interest Rate as of April 2, 2016	Principal Amount		Maturity Date
		April 2, 2016	January 2, 2016	
Senior Secured Credit Facility:				
Revolving Loan Facility	1.99%	$802,500	$63,500	April 2020
Euro Term Loan	3.50%	117,304	113,098	August 2021
Term Loan A	1.90%	696,250	705,313	April 2020
Term Loan B	3.25%	420,750	421,813	April 2022
6.375% Senior Notes	6.38%	1,000,000	1,000,000	December 2020
Accounts Receivable Securitization Facility	1.33%	200,000	195,163	March 2017
Other International Debt	Various	9,582	8,094	Various
		3,246,386	2,506,981	
Less long-term debt issuance cost		20,637	21,450	
Less current maturities		262,325	252,819	
		$2,963,424	$2,232,712	

As of April 2, 2016, the Company had $182,005 of borrowing availability under the $1,000,000 Revolving Loan Facility after taking into account outstanding borrowings and $15,495 of standby and trade letters of credit issued and outstanding under this facility.

In March 2016, the Company amended the accounts receivable securitization facility that it entered into in November 2007 (the "Accounts Receivable Securitization Facility"). This amendment primarily extended the termination date to March 2017 and changed the borrowing capacity from a fixed capacity to a varying limit throughout the year, in order to minimize fees for the Company's unused portion of the facility.

As of April 2, 2016, the Company was in compliance with all financial covenants under its credit facilities.

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

(7) Accumulated Other Comprehensive Loss
The components of Accumulated other comprehensive loss ("AOCI") are as follows:

	Cumulative Translation Adjustment	Hedges	Defined Benefit Plans	Income Taxes	Accumulated Other Comprehensive Loss
Balance at January 2, 2016	$ (57,675)	$ 6,743	$ (563,759)	$ 219,758	$ (394,933)
Amounts reclassified from accumulated other comprehensive loss	—	(2,324)	4,205	(732)	1,149
Current-period other comprehensive income (loss) activity	12,474	(5,578)	—	2,171	9,067
Balance at April 2, 2016	$ (45,201)	$ (1,159)	$ (559,554)	$ 221,197	$ (384,717)

The Company had the following reclassifications out of AOCI:

Component of AOCI	Location of Reclassification into Income	Amount of Reclassification from AOCI Quarter Ended April 2, 2016	April 4, 2015
Gain (loss) on foreign exchange contracts	Cost of sales	$ 2,324	$ 835
	Income tax	(904)	(507)
	Net of tax	1,420	328
Amortization of deferred actuarial loss and prior service cost	Selling, general and administrative expenses	(4,205)	(2,770)
	Income tax	1,636	1,200
	Net of tax	(2,569)	(1,570)
Total reclassifications		$ (1,149)	$ (1,242)

(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 April 2, 2016, the notional U.S. dollar equivalent of commitments to sell and purchase foreign currencies within the Company's derivative portfolio was $229,472 and $2,614, respectively, primarily consisting of contracts hedging exposures to the Euro, Canadian dollar, Mexican peso, Australian dollar, Japanese yen and Brazilian real.
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:

	Balance Sheet Location	Fair Value April 2, 2016	January 2, 2016
Hedges	Other current assets	$ 131	$ 3,700
Non-hedges	Other current assets	339	1,514
Total derivative assets		470	5,214
Hedges	Accrued liabilities	(3,728)	(330)

Non-hedges	Accrued liabilities	(1,297)	(775)
Total derivative liabilities		(5,025)	(1,105)
Net derivative asset (liability)		$(4,555)	$ 4,109

Cash Flow Hedges

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

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 AOCI of approximately $65.

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 AOCI and Income is as follows:

	Amount of Gain (Loss) Recognized in AOCI (Effective Portion) Quarter Ended	
	April 2, 2016	April 4, 2015
Foreign exchange contracts	$(5,578)	$11,185

	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain Reclassified from AOCI into Income (Effective Portion) Quarter Ended	
		April 2, 2016	April 4, 2015
Foreign exchange contracts	Cost of sales	$ 2,324	$ 835

Derivative Contracts Not Designated As Hedges

The Company uses foreign exchange derivative contracts as economic hedges against the impact of foreign exchange fluctuations on existing accounts receivable and payable balances and intercompany lending transactions denominated in foreign currencies. These contracts are not designated as hedges under the accounting standards and are recorded at fair value in the Condensed Consolidated Balance Sheet. Any gains or losses resulting from changes in fair value are recognized directly into earnings. 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:

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income

		Quarter Ended	
		April 2, 2016	April 4, 2015
Foreign exchange contracts	Selling, general and administrative expenses	$(2,408)	$3,470

(9) Fair Value of Assets and Liabilities

As of April 2, 2016, the Company held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis. These consisted of the Company's derivative instruments related to foreign exchange rates and deferred compensation plan liabilities. The fair values of foreign currency derivatives are determined using the cash flows of the foreign

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

exchange contract, discount rates to account for the passage of time and current foreign exchange market data and are categorized as Level 2. The fair value of deferred compensation plans is based on readily available current market data and is 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 April 2, 2016 to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis. There were no transfers into or out of Level 1, Level 2 or Level 3 during the quarter ended April 2, 2016. As of and during the quarter ended April 2, 2016, 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.

	Assets (Liabilities) at Fair Value as of April 2, 2016		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign exchange derivative contracts	$—	$470	$ —
Foreign exchange derivative contracts	—	(5,025)	—
	—	(4,555)	—
Deferred compensation plan liability	—	(36,015)	—
Total	$—	$(40,570)	$ —

	Assets (Liabilities) at Fair Value as of January 2, 2016		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign exchange derivative contracts	$—	$5,214	$ —
Foreign exchange derivative contracts	—	(1,105)	—
	—	4,109	—
Deferred compensation plan liability	—	(36,257)	—
Total	$—	$(32,148)	$ —

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 April 2, 2016 and January 2, 2016. The carrying amount of trade accounts receivable included allowance for doubtful accounts, chargebacks and other deductions of $14,696 and $13,100 as of April 2, 2016 and January 2, 2016, respectively. The fair value of debt, which is classified as a Level 2 liability, was $3,285,216 and $2,537,640 as of April 2, 2016 and January 2, 2016, respectively. Debt had a carrying value of $3,246,386 and $2,506,981 as of April 2, 2016 and January 2, 2016, respectively. In the first quarter of 2016, the Company adopted new accounting rules, which require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. Hence, the carrying value of debt reflected on the face of the balance sheet reflects the adoption of the new accounting rules. However, the carrying value of debt reflected in this footnote disclosure reflects the gross amount owed to creditors. 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 April 2, 2016 and January 2, 2016, primarily due to the short-term nature of these instruments.

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Notes to Condensed Consolidated Financial Statements — (Continued)
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(10) Income Taxes
The Company's effective income tax rate was 11% and 16% for the quarters ended April 2, 2016 and April 4, 2015, respectively. The lower effective income tax rate for the quarter ended April 2, 2016 compared to the quarter ended April 4, 2015 was primarily due to a lower proportion of earnings attributed to domestic subsidiaries, which are taxed at rates higher than foreign subsidiaries.
(11) Subsequent Event
The Company announced on April 7, 2016 that it had entered into a definitive agreement to acquire Champion Europe S.p.A ("Champion Europe"), which owns the trademark for the Champion brand in Europe, the Middle East and Africa. The purchase price will be 10 times actual calendar year 2016 earnings before interest, taxes, depreciation and amortization ("EBITDA"), subject to adjustment for cash, debt and working capital. Champion Europe expects calendar year 2016 EBITDA of approximately €20,000. The acquisition, which is subject to certain closing conditions, is expected to close midyear 2016.
(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. As a result of a shift in management responsibilities, the Company decided in the first quarter of 2016 to move its wholesale e-commerce business from its Direct to Consumer segment into the respective Innerwear and Activewear segments. Prior year segment sales and operating profit results have been revised to conform to the current year presentation.
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, panties, children's underwear, socks, hosiery and intimate apparel, which includes bras and shapewear.
- Activewear sells basic branded products that are primarily seasonal in nature under the product categories of branded printwear and retail activewear, as well as licensed logo apparel in collegiate bookstores, mass retail and other channels.
- Direct to Consumer includes the Company's value-based ("outlet") stores and Internet operations that sell products from the Company's portfolio of leading brands.
- International primarily relates to the Europe, 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 Company decided in the first quarter of 2016 to revise the manner in which the Company allocates certain selling, general and administrative expenses. Certain prior year segment operating profit disclosures have been revised to conform to current year presentation. 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 January 2, 2016.

	Quarter Ended	
	April 2, 2016	April 4, 2015
Net sales:		
Innerwear	$560,726	$553,604
Activewear	309,525	301,010
Direct to Consumer	69,802	71,157

International	279,087	283,150
Total net sales	$1,219,140	$1,208,921

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(dollars and shares in thousands, except per share data)

	Quarter Ended	
	April 2, 2016	April 4, 2015
Segment operating profit:		
Innerwear	$117,972	$116,063
Activewear	32,569	31,170
Direct to Consumer	(3,022)	(4,530)
International	24,719	21,495
Total segment operating profit	172,238	164,198
Items not included in segment operating profit:		
General corporate expenses	(21,435)	(26,244)
Acquisition, integration and other action related charges	(24,669)	(43,228)
Amortization of intangibles	(3,729)	(4,795)
Total operating profit	122,405	89,931
Other expenses	(649)	(382)
Interest expense, net	(31,566)	(26,887)
Income before income tax expense	$90,190	$62,662

For the quarter ended April 2, 2016, the Company incurred acquisition, integration and other action related charges of $24,669, of which $4,869 is reported in the “Cost of sales” line and $19,800 is reported in the “Selling, general and administrative expenses” line in the Condensed Consolidated Statement of Income. For the quarter ended April 4, 2015, the Company incurred acquisition, integration and other action related charges of $43,228, of which $14,068 is reported in the “Cost of sales” line and $29,160 is reported in the “Selling, general and administrative expenses” line in the Condensed Consolidated Statement of Income.

As part of the Hanes Europe Innerwear acquisition strategy, the Company has identified management and administrative positions that are considered non-essential and/or duplicative that will be eliminated. As of April 2, 2016, the Company has accrued approximately $50,269 for employee termination and other benefits recognized in accordance with expected benefit payments for affected employees. The charges are reflected in the “Cost of sales” and “Selling, general and administrative expenses” lines of the Consolidated Statements of Income. As of April 2, 2016, approximately $3,731 of benefit payments had been made. $30,596 and $19,673, respectively, is included in the “Accrued liabilities” and “Other noncurrent liabilities” line of the Consolidated Balance Sheet.

(13) Consolidating Financial Information

In accordance with the indenture governing the Company’s $1,000,000 6.375% 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 that are eliminated upon consolidation.

(dollars and shares in thousands, except per share data)

Condensed Consolidating Statement of Comprehensive Income
Quarter Ended April 2, 2016

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$876,884	$178,588	$865,234	$(701,566)	$1,219,140
Cost of sales	649,945	92,022	638,057	(618,140)	761,884
Gross profit	226,939	86,566	227,177	(83,426)	457,256
Selling, general and administrative expenses	189,432	44,619	103,279	(2,479)	334,851
Operating profit	37,507	41,947	123,898	(80,947)	122,405
Equity in earnings of subsidiaries	96,432	101,331	—	(197,763)	—
Other expenses	649	—	—	—	649
Interest expense, net	27,088	1	4,527	(50)	31,566
Income before income tax expense	106,202	143,277	119,371	(278,660)	90,190
Income tax expense	25,933	(24,465)	8,453	—	9,921
Net income	$80,269	$167,742	$110,918	$(278,660)	$80,269
Comprehensive income	$90,485	$167,742	$118,621	$(286,363)	$90,485

Condensed Consolidating Statement of Comprehensive Income
Quarter Ended April 4, 2015

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$951,090	$153,174	$792,012	$(687,355)	$1,208,921
Cost of sales	772,889	74,310	600,410	(684,919)	762,690
Gross profit	178,201	78,864	191,602	(2,436)	446,231
Selling, general and administrative expenses	224,682	52,864	80,454	(1,700)	356,300
Operating profit	(46,481)	26,000	111,148	(736)	89,931
Equity in earnings of subsidiaries	131,166	108,170	—	(239,336)	—
Other expenses	382	—	—	—	382
Interest expense, net	19,123	(4)	7,782	(14)	26,887
Income before income tax expense	65,180	134,174	103,366	(240,058)	62,662
Income tax expense	12,544	(11,090)	8,572	—	10,026
Net income	$52,636	$145,264	$94,794	$(240,058)	$52,636
Comprehensive income	$57,479	$145,264	$90,404	$(235,668)	$57,479

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements — (Continued)
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Condensed Consolidating Balance Sheet
April 2, 2016

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets					
Cash and cash equivalents	$20,955	$5,826	$ 305,641	$—	$ 332,422
Trade accounts receivable, net	95,789	67,911	559,680	(1,277)	722,103
Inventories	1,302,946	167,467	692,236	(192,777)	1,969,872
Other current assets	35,966	9,933	47,384	—	93,283
Total current assets	1,455,656	251,137	1,604,941	(194,054)	3,117,680
Property, net	96,408	42,950	512,768	—	652,126
Trademarks and other identifiable intangibles, net	6,132	130,161	575,657	—	711,950
Goodwill	232,882	238,635	367,467	—	838,984
Investments in subsidiaries	4,681,675	2,335,565	—	(7,017,240)	—
Deferred tax assets	365,965	75,999	10,745	—	452,709
Receivables from related entities	5,497,304	5,251,814	2,536,205	(13,285,323)	—
Other noncurrent assets	38,569	317	9,726	—	48,612
Total assets	$12,374,591	$8,326,578	$ 5,617,509	$(20,496,617)	$ 5,822,061
Liabilities and Stockholders' Equity					
Accounts payable	$189,512	$25,815	$ 315,109	$—	$ 530,436
Accrued liabilities	169,252	24,978	266,546	(262)	460,514
Notes payable	—	—	115,237	—	115,237
Accounts Receivable Securitization Facility	—	—	200,000	—	200,000
Current portion of long-term debt	58,625				