

PEROT SYSTEMS CORP
Form 10-K
February 28, 2007

Table of Contents

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

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2006

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 0-22495

PEROT SYSTEMS CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation)

75-2230700
(I.R.S. Employer
Identification No.)

**2300 WEST PLANO PARKWAY
PLANO, TEXAS**
(Address of Principal Executive Offices)

75075
(Zip Code)

(Registrant's Telephone Number)
(972) 577-0000

Securities registered pursuant to Section 12(b) of the Act:

**Name of
Each Exchange**

Title of Each Class	On Which Registered
Class A Common Stock Par Value \$0.01 per share	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:
Preferred Stock Purchase Rights**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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 June 30, 2006, the aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, based upon the closing sales price for the registrant's common stock as reported on the New York Stock Exchange, was approximately \$1,232,282,752 (calculated by excluding shares owned beneficially by directors and officers).

Number of shares of registrant's common stock outstanding as of February 23, 2007: 120,976,714 shares of Class A Common Stock and 816,638 shares of Class B Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: certain information required in Part III of this Form 10-K is incorporated from the registrant's Proxy Statement for its 2007 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 31, 2006.

FORM 10-K

For the Year Ended December 31, 2006

INDEX

PART I

<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	8
<u>Item 2.</u>	<u>Properties</u>	14
<u>Item 3.</u>	<u>Legal Proceedings</u>	14
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	15

PART II

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	15
<u>Item 6.</u>	<u>Selected Financial Data</u>	18
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	36
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	37
<u>Item 9A.</u>	<u>Controls and Procedures</u>	37

PART III

<u>Item 10.</u>	<u>Directors and Executive Officers of the Registrant</u>	37
<u>Item 11.</u>	<u>Executive Compensation</u>	37
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	37
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions</u>	38
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	38

PART IV

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	39
	<u>Signatures</u>	42
	<u>Amended and Restated Stock Option Agreement</u>	
	<u>Stock Purchase Agreement</u>	
	<u>Information Technology Services Agreement</u>	
	<u>Subsidiaries of the Company</u>	
	<u>Consent of PricewaterhouseCoopers LLP</u>	
	<u>Rule 13a-14 Certification by Peter A. Altabef</u>	
	<u>Rule 13a-14 Certification by Russell Freeman</u>	
	<u>Section 1350 Certification by Peter A. Altabef</u>	

Section 1350 Certification by Russell Freeman
Schedule II - Valuation and Qualifying Accounts

Table of Contents

This report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, forecasts, expects, plans, anticipates, believes, estimates, predicts, potential, see, target, continue or the negative of such terms and other comparable terminology. These statements reflect our current expectations, estimates, and projections. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. Actual events or results may differ materially from what is expressed or forecasted in these forward-looking statements. In evaluating these statements, you should specifically consider various factors, including the risks outlined below under the caption Risk Factors. These risk factors describe reasons why our actual results may differ materially from any forward-looking statement. We disclaim any intention or obligation to update any forward-looking statement.

PART I

Item 1. Business

Overview

Perot Systems Corporation, originally incorporated in the state of Texas in 1988 and reincorporated in the state of Delaware on December 18, 1995, is a worldwide provider of information technology (commonly referred to as IT) services and business solutions to a broad range of customers. We offer our customers integrated solutions designed around their specific business objectives, chosen from a breadth of services, including technology infrastructure services, applications services, business process services, and consulting services.

With this approach, our customers benefit from integrated service offerings that help synchronize their strategy, systems, and infrastructure. As a result, we help our customers achieve their business objectives, whether those objectives are to accelerate growth, streamline operations, or enhance customer service capabilities.

Our Services

We provide the following categories of services to our customers either on a standalone basis or bundled within a comprehensive solution. Within our market-facing units and as described in more detail below, we offer a mix of these services as part of our solutions.

Infrastructure services

Consulting services

Applications services

Business process services

Infrastructure Services

Infrastructure services are typically performed under multi-year contracts in which we assume operational responsibility for various aspects of our customers' businesses, including data center and systems management, Web hosting and Internet access, desktop solutions, messaging services, program management, hardware maintenance and monitoring, network management, including VPN services, service desk capabilities, physical security, network security, and risk management. We typically hire a significant portion of the customer's staff that have supported these functions. We then apply our expertise and operating methodologies to increase the efficiency of the operations,

which usually results in increased operational quality at a lower cost.

Consulting Services

Consulting services include strategy consulting, enterprise consulting, technology consulting, and research. The consulting services provided to customers within our Industry Solutions and Government Services segments typically consist of customized, industry-specific business solutions provided by associates with industry expertise.

Table of Contents

The consulting services provided within the Consulting and Application Solutions segment includes the implementation of prepackaged software applications. Consulting services are typically viewed as discretionary services by our customers, with the level of business activity depending on many factors, including economic conditions and specific customer needs.

Applications Services

Applications services include services such as application development and maintenance, including the development and maintenance of custom and packaged application software for customers, and application systems migration and testing, which includes the migration of applications from legacy environments to current technologies, as well as performing quality assurance functions on custom applications. We also provide other applications services such as application assessment and evaluation, hardware and architecture consulting, systems integration, and Web-based services.

Business Process Services

Business process services include services such as product engineering, claims processing, life insurance policy administration, call center management, payment and settlement management, security, and services to improve the collection of receivables. In addition, business process services include engineering support and other technical and administrative services that we provide to the U.S. federal government.

Our Contracts

Our contracts include services priced using a wide variety of pricing mechanisms. In determining how to price our services, we consider the delivery, credit and pricing risk of a business relationship. For the year ended December 31, 2006:

Approximately 30% of our revenue was from fixed-price contracts where our customers pay us a set amount for contracted services. For some of these fixed-price contracts, the price will be set so that the customer realizes immediate savings in relation to their current expense for the services we will be performing. On contracts of this nature, our profitability generally increases over the term of the contract as we become more efficient. The time that it takes for us to realize these efficiencies can range from a few months to a few years, depending on the complexity of the services.

Approximately 29% of our revenue was from time and materials contracts where our billings are based on measurements such as hours, days or months and an agreed upon rate. In some cases, the rate the customer pays for a unit of time can vary over the term of a contract, which may result in the customer realizing immediate savings at the beginning of a contract.

Approximately 25% of our revenue was from cost plus contracts where our billings are based in part on the amount of expense we incur in providing services to a customer. Our largest cost plus contract was our infrastructure outsourcing contract with UBS AG, which was also our largest customer through December 31, 2006. As discussed below under Our UBS Relationship, our infrastructure outsourcing contract with UBS ended on January 1, 2007, and the services we performed for UBS under that contract represented 12% of our revenue for 2006.

Approximately 16% of our revenue was from per-unit pricing where we bill our customers based on the volumes of units provided at the unit rate specified. In some contracts, the per-unit prices may vary over the term of the contract, which may result in the customer realizing immediate savings at the beginning of a

contract.

We also utilize other pricing mechanisms, including license fees and risk/reward relationships where we participate in the benefit associated with delivering a certain outcome. Revenue from these other pricing mechanisms totaled less than 1% of our revenue.

Depending on a customer's business requirements and the pricing structure of the contract, the amount of cash generated from a contract can vary significantly during a contract's term. With fixed- or unit-priced contracts or

Table of Contents

when an upfront payment is made to purchase assets or as a sales incentive, an outsourcing services contract will typically produce less cash at the beginning of the contract with significantly more cash being generated as efficiencies are realized later in the term. With a cost plus contract, the amount of cash generated tends to be relatively consistent over the term of the contract.

Our Lines of Business

We offer our services under three primary lines of business: Industry Solutions, Government Services, and Consulting and Applications Solutions. We consider these three lines of business to be reportable segments and include financial information and disclosures about these reportable segments in our consolidated financial statements. You can find this financial information in Note 13, *Segment and Certain Geographic Data*, of the Notes to Consolidated Financial Statements below. We routinely evaluate the historical performance of and growth prospects for various areas of our business, including our lines of business, delivery groups, and service offerings. Based on a quantitative and qualitative analysis of varying factors, we may increase or decrease the amount of ongoing investment in each of these business areas, make acquisitions that strengthen our market position, or divest, exit, or downsize aspects of a business area.

Industry Solutions

Industry Solutions, which is our largest line of business and represented approximately 78%, 77%, and 75% of our total revenue for 2006, 2005, and 2004, respectively, provides services to our customers primarily under long-term contracts in strategic relationships. These services include technology and business process services, as well as industry domain-based, short-term project and consulting services.

Our Industry Solutions line of business consists of four delivery groups, three of which are market-facing *Healthcare*, *Commercial Solutions*, and *Insurance and Business Process Solutions*. The fourth group, *Infrastructure Solutions*, is the delivery organization for our technology infrastructure management services, and is responsible for defining the technology strategies for customers within each industry group.

Healthcare

Our Healthcare group, which represented approximately 47%, 46%, and 45% of our total revenue for 2006, 2005, and 2004, respectively, and approximately 60% of revenue for the Industry Solutions line of business for each of those years, provides services primarily to providers of healthcare, but we also serve health insurance organizations and organizations that are a part of the healthcare supply chain:

Providers including hospitals, physician practices and public sector agencies. Our hospital customers include health systems and freestanding hospitals. Our physician practice customers include large academic medical center practice groups. Within the public sector, we focus on federal government healthcare agencies such as the Veterans Health Administration.

Health insurance organizations including national insurers, Blue Cross and Blue Shield plans and regional managed care organizations; and

Healthcare supply chain including medical surgical suppliers and distributors and retail pharmacy.

Within our Healthcare group, we provide a full range of services, including consulting, applications, infrastructure, and business process services. Our associates deliver technology-based solutions to meet the demanding challenges of the healthcare industry globally to:

Improve patient safety and quality;

Lower the healthcare cost trend and achieve new levels of customer satisfaction; and

Achieve administrative transaction process efficiency.

For hospitals, we provide information technology, revenue cycle, supply chain sourcing solutions, as well as operational and clinical transformation services that drive lower costs, increase cash and improve the delivery of care. We employ the industry's leading clinical, technology, and process know-how to provide our services.

Table of Contents

For physicians, we deploy electronic health records and facilitate revenue cycle management. Our information technology and revenue cycle solutions provide a self-funding vehicle for clinical technology investments.

For health insurance organizations, we enable the transformation to consumer health models by supporting administrative process efficiency with our PERADIGM technology platform and business process services.

For healthcare supply chain, we provide technology infrastructure support and solutions that enhance the integration of the supply chain process among suppliers, distributors, hospitals, and physician organizations.

For public sector healthcare, we utilize our commercial healthcare expertise to support federal government healthcare initiatives.

Commercial Solutions

Our Commercial Solutions group, which represented approximately 27%, 29%, and 29% of our total revenue for 2006, 2005, and 2004, respectively, and approximately 35%, 37%, and 38% of revenue for the Industry Solutions line of business for 2006, 2005, and 2004, respectively, provides services to customers primarily in three markets:

Manufacturing including customers in automotive and automotive components and parts, machinery and durable goods.

Consumer including customers in travel, transportation and publishing industries.

Engineering and Construction including customers in commercial and residential construction.

Within Commercial Solutions, we provide a full range of services including consulting, applications, infrastructure, and business process services. Our infrastructure and application services are designed to help clients reduce technology costs while increasing operational quality. Our product engineering services are focused on helping manufacturers to develop their products more effectively and include research and design engineering, program management, and manufacturing engineering. Our industry-specific consulting services include business and technology solutions that improve the efficiencies of critical processes, including product design, supply chain execution, call centers, collaborative engineering tools, and manufacturing plant floor processes.

Insurance and Business Process Solutions

The Insurance and Business Process Solutions group, which represented approximately 4%, 2%, and 1% of our total revenue for 2006, 2005, and 2004, respectively, and approximately 5%, 3%, and 2% of revenue for the Industry Solutions line of business for 2006, 2005, and 2004, respectively, provides industry specific IT and general back-office business services to the Insurance Industry and to customers in the Healthcare and Commercial Solutions groups. These services leverage our global delivery capabilities, which include application development and maintenance, infrastructure services, data entry, transaction processing, document capture and management, and customer care services. This group uses these capabilities and leverages proprietary intellectual property and technology platforms to provide various business process services, including revenue cycle outsourcing, claims processing, financial and accounting services, and life insurance policy administration. These services benefit our customers by providing lower-cost options with increased visibility into and control over their back-office business processes.

Infrastructure Solutions

Our Infrastructure Solutions group is responsible for defining the technology strategies for our Industry Solutions customers and us. This group identifies new technology offerings and innovations that deliver value to our customers. It manages, updates and maintains the technology infrastructure for our customers and us, including networks, data centers, help desks, mainframes, servers, storage, and workspace computing. It also provides senior technology consultants to assist our customers with more complex technology transformations. It manages, resolves and documents problems in our customers' computing environments. The group also provides comprehensive monitoring, planning, and safeguarding of information technology systems against intrusion by monitoring system and network status, collecting and analyzing data regarding system and network performance, and applying

Table of Contents

appropriate corrective actions. All of these activities are either performed at customer facilities or delivered through centralized data processing centers that we maintain.

Government Services

Our Government Services group, which represented approximately 13%, 14%, and 15% of our total revenue for 2006, 2005, and 2004, respectively, provides consulting, engineering support, and technology-based business process solutions for the Department of Defense, the Department of Homeland Security, various federal intelligence agencies, and other governmental agencies.

Our core product portfolio includes information technology and business process outsourcing, business process services, IT infrastructure support, and a wide array of professional services. These services include the direct support of engineering, safety, quality assurance, logistics, environmental, and program management for federal managers across a broad spectrum of critical programs. We provide infrastructure support to the federal government through management consulting services, information technology and system support, application design and development, government financial services, business process services, and outreach, media and communications services.

On January 30, 2007, we acquired all of the outstanding shares of QSS Group, Inc. (QSS), a U.S. federal government information technology services company, for \$247 million (net of \$1 million of cash acquired), \$30 million of which is being held in an escrow account for up to approximately eighteen months. As a result of this acquisition, we have gained several significant government-wide acquisition contracts and expanded both the scope of services and the areas we serve within the Department of Homeland Security and the Department of Defense. The purchase price was partially funded by \$75 million borrowed against our existing credit facility.

Consulting and Applications Solutions

In the first quarter of 2006, we combined the Consulting Solutions group, which was previously included in our Commercial Solutions group in the Industry Solutions line of business, with the Applications Solutions line of business. Our Consulting and Applications Solutions line of business represented approximately 9%, 9%, and 10% of our total revenue for 2006, 2005, and 2004, respectively, net of the elimination of inter-segment revenue.

The Consulting and Applications Services Group provides global consulting and integration services, applications development and management services, and applications outsourcing services to our global client base. These services are delivered on-site and offshore, providing innovative industry focused solutions. Leading through domain expertise to provide performance improvement, business and technology architecture and transformation, these services include enterprise applications implementation and integration; the development and maintenance of custom and packaged applications; application systems migration; testing; migration of applications from legacy environments to current technologies; and performing quality assurance functions on custom applications.

Perot Systems Associates

The markets for IT personnel and business integration professionals are intensely competitive. A key part of our business strategy is the hiring, training, and retaining of highly motivated personnel with strong character and leadership traits. We believe that employing associates with such traits is and will continue to be an integral factor in differentiating us from our competitors in the IT industry. In seeking such associates, we screen candidates for employment through a rigorous interview process. In addition to competitive salaries, we distribute cash bonuses that are paid promptly to reward excellent performance, and we have an annual incentive plan based on our performance in relation to our business and financial targets.

Edgar Filing: PEROT SYSTEMS CORP - Form 10-K

As of December 31, 2006, we employed approximately 21,200 associates. A limited number of these associates located in the United States are currently employed under an agreement with a collective bargaining unit. In European countries, our associates are generally members of work councils and have worker representatives. We believe that our relations with our associates are good.

Table of Contents

Our UBS Relationship

UBS AG was our largest customer through December 31, 2006. We earned approximately 13%, 15%, and 16% of our revenue in connection with services performed on behalf of UBS and its affiliates for 2006, 2005, and 2004, respectively. We performed most of our services for UBS under an infrastructure outsourcing contract called the IT Services Agreement, which ended January 1, 2007. During 2006, 2005, and 2004, the amounts of annual revenue that we earned from UBS and its affiliates under the IT Services Agreement were \$265 million, \$262 million, and \$244 million, respectively, and the amounts of gross profit earned were \$58 million, \$53 million, and \$51 million, respectively. We continue to provide applications services to UBS, which are provided outside the scope of the infrastructure outsourcing contract and represented \$43 million of revenue in 2006. We do not expect significant changes in the applications services we provide to UBS as a result of the end of the infrastructure outsourcing contract.

Competition

We operate in extremely competitive markets, and the technology required to meet our customers' needs changes. In each of our lines of business we frequently compete with companies that have greater financial resources; more technical, sales, and marketing capacity; and larger customer bases than we do. Because many of the factors on which we compete, as discussed below, are outside of our control, we cannot be sure that we will be successful in the markets in which we compete. If we fail to compete successfully, our business, financial condition, and results of operations will be materially and adversely affected.

Industry Solutions

Our Industry Solutions line of business competes with a number of different information technology service providers depending upon the region, country, and/or market we are addressing. Some of our more frequent competitors include: Accenture Ltd., Affiliated Computer Services, Inc., BearingPoint, Inc., Cap Gemini Ernst & Young, CGI Group, Inc., Cerner Corporation, Computer Sciences Corporation, Electronic Data Systems Corporation, First Consulting Group, Incorporated, Hewlett Packard Company, IBM Global Services (a division of International Business Machines Corporation), McKesson Corporation, Siemens Business Services, Inc., Unisys Corporation, smaller consulting firms with industry expertise in areas such as healthcare or financial services, and the consulting divisions of large systems integrators and information technology services providers. In addition, we may compete with non-IT outsourcing providers who enter into marketing and business alliances with our customers that provide for the consolidation of services. As we enter new markets, we expect to encounter additional competitors. Our Industry Solutions line of business competes on the basis of a number of factors, including the attractiveness and breadth of the business strategy and services that we offer, pricing, technological innovation, quality of service, ability to invest in or acquire assets of potential customers, and our scale in certain industries. We also frequently compete with our customers' own internal information technology capability, which may constitute a fixed cost for our customer. In addition, the market for consulting services is affected by an oversupply of consulting talent, both domestically and offshore, which results in downward price pressure for our services. All of these factors may increase pricing pressure on us.

Government Services

Our Government Services line of business competes with a number of different service providers depending on the federal agency or department as well as the market we are addressing. Some of our more frequent competitors include: Accenture Ltd., Affiliated Computer Services, Inc., BearingPoint, Inc., Booz-Allen and Hamilton, CACI International, Inc., Computer Sciences Corporation, Electronic Data Systems Corporation, General Dynamics, Lockheed Martin Corporation, Northrop Grumman Corporation, Science Applications International Corporation, SRA International, and Unisys Corporation. We compete on the basis of a number of factors, including the attractiveness and breadth of

the business strategy and professional services that we offer, pricing, technological innovation, and quality of service. We must frequently compete in federal and defense programs with declining budgets, which creates pressure to lower our prices.

Table of Contents

Consulting and Applications Solutions

Our Consulting and Applications Solutions line of business competes with a number of different service providers, including Accenture, Ltd., BearingPoint, Inc., Cap Gemini Ernst & Young, Cognizant Technology Solutions Corporation, Deloitte Consulting LLP (a member of Deloitte Touche Tomatsu), IBM Global Services (a division of International Business Machines Corporation), iGate Global Solutions Limited, Infosys Technologies Limited, Mastek, Limited, Mphasis, an EDS company, Patni Computer Systems Limited, Polaris Software Lab Limited, Sapient Corporation, Satyam Computer Services, Tata Consultancy Services Limited, and Wipro Limited. We compete on many factors, including price, industry expertise, our process methodologies and intellectual property, and our past successes in executing assignments. Emerging offshore development capacity in countries such as India and China is increasing the degree of competition for our software development services.

Financial Information About Foreign and Domestic Operations

See Note 13, Segment and Certain Geographic Data, to the Consolidated Financial Statements included elsewhere in this report.

Intellectual Property

While we attempt to retain intellectual property rights arising from customer engagements, our customers often have the contractual right to such intellectual property. We rely on a combination of nondisclosure and other contractual arrangements and trade secret, copyright, and trademark laws to protect our proprietary rights and the proprietary rights of third parties from whom we license intellectual property. We enter into confidentiality agreements with our associates and limit distribution of proprietary information. There can be no assurance that the steps we take in this regard will be adequate to deter misappropriation of proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights.

We license the right to use the names Perot Systems and Perot in our current and future businesses, products, or services from the Perot Systems Family Corporation and Ross Perot, our Chairman Emeritus. The license is a non-exclusive, royalty-free, worldwide, non-transferable license. We may also sublicense our rights to the Perot name to some of our affiliates. Under the license agreement, either party may, in its sole discretion, terminate the license at any time, with or without cause and without penalty, by giving the other party written notice of such termination. Upon termination by either party, we must discontinue all use of the Perot name within one year following notice of termination. The termination of this license agreement could materially and adversely affect our business, financial condition, and results of operations. Except for the license of our name, we do not believe that any particular copyright, trademark, or group of copyrights and trademarks is of material importance to our business taken as a whole.

Our Web Site and Availability of SEC Reports and Corporate Governance Documents

Our Internet address is www.perotsystems.com and the investor relations section of our Web site is located at www.perotsystems.com/investors. We make available free of charge, on or through the investor relations section of our Web site, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Also, posted on our corporate responsibility section of our Web site (located at www.perotsystems.com/responsibility), and available in print upon request of any shareholder to our Investor Relations department, are our charters for our Audit Committee, Compensation Committee, and Nominating and Governance Committee, as well as our Standards & Ethical Principles and our Corporate Governance Guidelines

(which include our Director Qualification Guidelines and Director Independence Standards). Within the time period required by the SEC and the New York Stock Exchange, we will post on our Web site any amendment to the Standards & Ethical Principles and any waiver applicable to our executive officers or directors.

Table of Contents

Item 1A. Risk Factors

An investment in our Class A common stock involves a high degree of risk. You should carefully consider the following risk factors in evaluating an investment in our common stock. The risks described below are not the only ones that we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the following risks actually occurs, our business, financial condition, or results of operations could be materially and adversely affected. In such case, the trading price of our Class A common stock could decline, and you could lose all or part of your investment. You should also refer to the other information set forth in this report, including our Consolidated Financial Statements and the related notes.

We may bear the risk of cost overruns relating to software development and implementation services, and, as a result, cost overruns could adversely affect our profitability.

We provide services related to the development of software applications and the implementation of complex software packages for some of our customers. The effort and cost associated with the completion of these software development and implementation services are difficult to estimate and, in some cases, may significantly exceed the estimates made at the time we begin the services. We provide these software development and implementation services under level-of-effort and fixed-price contracts. The level-of-effort contracts are usually based on time and materials or direct costs plus a fee. Under those arrangements, we are able to bill our customer based on the actual cost of completing the services, even if the ultimate cost of the services exceeds our initial estimates. However, if the ultimate cost exceeds our initial estimate by a significant amount, we may have difficulty collecting the full amount that we are due under the contract, depending upon many factors, including the reasons for the increase in cost, our communication with the customer throughout the project, and the customer's satisfaction with the services. As a result, we could incur losses with respect to these software development and implementation services even when they are priced on a level-of-effort basis. If we provide these software development or implementation services under a fixed-price contract, we bear all the risk that the ultimate cost of the project will exceed the price to be charged to the customer.

Our largest customers account for a substantial portion of our revenue and profits, and the loss of any of these customers could result in decreased revenue and profits.

Our 10 largest customers accounted for 47.8% of our revenue for 2006 and 49.1% of our revenue in 2005. UBS was the only customer that accounted for more than 10% of our revenue for 2006 and 2005. After UBS, our next nine largest customers accounted for 34.4% of our revenue in 2006 and 34.1% of our revenue in 2005. Subsequent to the end of the UBS infrastructure outsourcing contract, the application services provided to UBS within our Consulting and Applications Solutions segment is expected to result in UBS remaining as one of our top fifteen customers.

Generally, we may lose a customer as a result of a merger or acquisition, contract expiration, the selection of another provider of information technology services, entry into strategic business and marketing alliances with other business partners, business failure or bankruptcy, or our performance. Our outsourcing contracts typically require us to maintain specified performance levels with respect to the services that we deliver to our customer, with the result that if we fail to perform at the specified levels, we may be required to pay or credit the customer with amounts specified in the contract. In the event of significant failures to deliver the services at the specified levels, a number of these contracts provide that the customer has the right to terminate the agreement. In addition, some of these contracts provide the customer the right to terminate the contract at the customer's convenience. The customer's right to terminate for convenience typically requires the customer to pay us a fee. We may not retain long-term relationships or secure renewals of short-term relationships with our large customers in the future.

Profitability of our contracts may be materially, adversely affected if we do not accurately estimate the costs of services and the timing of the completion of projects.

The services that we provide, and projects we undertake, pursuant to our contracts are increasingly complex. Our success in accurately estimating the costs of services and timing for the completion of projects and other initiatives to be provided pursuant to our contracts is critical to our ability to price our contracts for long-term

Table of Contents

profitability. While these estimates reflect our best judgment regarding preexisting costs, efficiencies that we will be able to deliver, and resources that will be required for implementation and performance, any increased or unexpected costs, delays or failures to achieve anticipated cost reductions could materially, adversely affect the profitability of these contracts.

If entities we acquire fail to perform in accordance with our expectations or if their liabilities exceed our expectations, our profits could be diminished and our financial results could be adversely affected.

In connection with any acquisition we make, there may be liabilities that we fail to discover or that we inadequately assess. To the extent that the acquired entity failed to fulfill any of its contractual obligations, we may be financially responsible for these failures or otherwise be adversely affected. In addition, acquired entities may not perform according to the forecasts that we used to determine the price paid for the acquisition. If the acquired entity fails to achieve these forecasts, our financial condition and operating results may be adversely affected.

Development of our software products may cost more than we initially project, and we may encounter delays or fail to perform well in the market, which could decrease our profits.

Our business has risks associated with the development of software products. There is the risk that capitalized costs of development may not be fully recovered if the market for our products or the ability of our products to capture a portion of the market differs materially from our estimates. In addition, there is the risk that the cost of product development differs materially from our estimates or a delay in product introduction may reduce the portion of the market captured by our product.

Our ability to perform on contracts on which we partner with third parties may be materially and adversely affected if these third parties fail to successfully or timely deliver their commitments.

Our engagements often require that our products and services incorporate or coordinate with the software or systems of other vendors and service providers. Our ability to deliver our commitments may depend on the delivery by these vendors and service providers of their commitments. If these third parties fail to deliver their commitments on time or at all, our ability to perform may be adversely affected, which could have a material adverse effect on our business, revenue, profitability or cash flow. In addition, in some cases, we may be responsible for the performance of other vendors or service providers delivering software, systems or other requirements.

Our government contracts contain early termination and reimbursement provisions that may adversely affect our revenue and profits.

Our Government Services line of business provides services as a contractor and subcontractor on various projects with U.S. government entities. Despite the fact that a number of government projects for which we serve as a contractor or subcontractor are planned as multi-year projects, the U.S. government normally funds these projects on an annual or more frequent basis. Generally, the government has the right to change the scope of, or terminate, these projects at its discretion or as a result of changes in laws or regulations that might affect our ability to qualify to perform the projects. The termination or a major reduction in the scope of a major government project could have a material adverse effect on our results of operations and financial condition. Approximately 99% of the revenue from the Government Services line of business in 2006 is from contracts with the U.S. government for which we serve as a contractor or subcontractor.

U.S. government entities audit our contract costs, including allocated indirect costs, or conduct inquiries and investigations of our business practices with respect to our government contracts. If the government finds that we improperly charged costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be

refunded to the government. If the government discovers improper or illegal activities in the course of audits or investigations, the contractor may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with the U.S. government. These government remedies could have a material adverse effect on our results of operations and financial condition.

Table of Contents

We have a significant business presence in India, and risks associated with doing business there could decrease our revenue and profits.

Our Consulting and Applications Solutions line of business is located primarily in India. In addition to the risks regarding fluctuations in currency exchange rates and regarding international operations discussed below, the following risks associated with doing business in India could decrease our revenue and profits:

governments could enact legislation that restricts the provision of services from offshore locations;

potential wage increases in India which could prevent us from maintaining our competitive advantage; and

cost increases if the Government of India reduces or withholds tax benefits and other incentives provided to us or if we are unable to obtain new tax holiday benefits when our existing tax holiday benefits expire in 2007 through 2009.

If we are unable to successfully integrate acquired entities, our profits may be less and our operations more costly or less efficient.

We have completed several acquisitions in recent years, and we will continue to analyze and consider potential acquisition candidates. Acquisitions involve significant risks, including the following:

companies we acquire may have a lower quality of internal controls and reporting standards, which could cause us to incur expenses to increase the effectiveness and quality of the acquired company's internal controls and reporting standards;

we may have difficulty integrating the systems and operations of acquired businesses, which may increase anticipated expenses relating to integrating our business with the acquired company's business and delay or reduce full benefits that we anticipate from the acquisition;

integration of an acquired business may divert our attention from normal daily operations of the business, which may adversely affect our management, financial condition, and profits; and

we may not be able to retain key employees of the acquired business, which may delay or reduce the full benefits that we anticipate from the acquisition and increase costs anticipated to integrate and manage the acquired company.

Our contracts generally contain provisions that could allow customers to terminate the contracts and sometimes contain provisions that enable the customer to require changes in pricing, decreasing our revenue and profits and potentially damaging our business reputation.

Our contracts with customers generally permit termination in the event our performance is not consistent with service levels specified in those contracts. The ability of our customers to terminate contracts creates an uncertain revenue and profit stream. If customers are not satisfied with our level of performance, our reputation in the industry may suffer, which may also adversely affect our ability to market our services to other customers. Furthermore, some of our contracts contain pricing provisions that permit a customer to request a benchmark study by a mutually acceptable third-party benchmarker. Generally, if the benchmarking study shows that our pricing has a difference outside a specified range and the difference is not due to the unique requirements of the customer, then the parties will negotiate in good faith any appropriate adjustments to the pricing. This may result in the reduction of our rates for the benchmarked services and could negatively impact our results of operations or cash flow.

Some contracts contain fixed- and unit-price provisions or penalties that could result in decreased profits.

Some of our contracts contain pricing provisions that require the payment of a set fee or per-unit fee by the customer for our services regardless of the costs we incur in performing these services, or provide for penalties in the event we fail to achieve certain service levels. In such situations, we are exposed to the risk that we will incur significant unforeseen costs or such penalties in performing the services under the contract.

Table of Contents

Fluctuations in currency exchange rates may adversely affect the profitability of our foreign operations.

Fluctuations in currency exchange rates may adversely affect the profitability of our foreign operations. For instance, with respect to most of our Indian operations, our customers pay us in their local currency (typically British Pounds, Euros or U.S. Dollars), but our costs are primarily incurred in Indian Rupees. Therefore, if the Rupee increases in strength against these local currencies, our profits from our Indian operations would be adversely affected. To attempt to mitigate the effects of significant foreign currency fluctuations, we use forward exchange contracts and other techniques. At December 31, 2006, we had 51 forward contracts to purchase and sell various currencies in the amount of \$75 million. These contracts expire at various times before the end of 2007.

Our international operations expose our assets to increased risks and could result in business loss or in more expensive or less efficient operations.

We have operations in many countries around the world. In addition to the risks related to fluctuations in currency exchange rates and the additional risk associated with doing business in India discussed above, risks that affect these international operations include:

complicated licensing and work permit requirements may hinder our ability to operate in some jurisdictions;

our intellectual property rights may not be well protected in some jurisdictions;

our operations may be vulnerable to terrorist actions or harmed by government responses;

governments may restrict our ability to convert currencies; and

additional expenses and risks inherent in conducting operations in geographically distant locations, with customers speaking different languages and having different cultural approaches to the conduct of business.

If customers reduce spending that is currently above contractual minimums, our revenue and profits could diminish.

Some of our outsourcing customers request services in excess of the minimum level of services required by the contract. These services are often in the form of project work and are discretionary to our customers. Our customers ability to continue discretionary project spending may depend on a number of factors including, but not limited to, their financial condition, and industry and strategic direction. Spending above contractual minimums by customers could end with limited notice and result in lower revenue and earnings.

If we fail to compete successfully in the highly competitive markets in which we operate, our business, financial condition, and results of operations will be materially and adversely affected.

We operate in extremely competitive markets, and the technology required to meet our customers needs changes. In all of our lines of business, we frequently compete with companies that have greater financial resources; more technical, sales, and marketing capacity; and larger customer bases than we do. Because many of the factors on which we compete are outside of our control, we cannot be sure that we will be successful in the markets in which we compete. If we fail to compete successfully, our business, financial condition, and results of operations will be materially and adversely affected.

Increasingly complex regulatory environments may increase our costs.

Our customers are subject to complex and constantly changing regulatory environments. These regulatory environments change and in ways that cannot be predicted. For example, our financial services customers are subject to domestic and foreign privacy and electronic record handling rules and regulations, and our customers in the healthcare industry have been made subject to increasingly complex and pervasive privacy laws and regulations. These regulations may increase our potential liabilities if our services contribute to a failure by our customers to comply with the regulatory regime and may increase the cost to comply as regulatory requirements increase or change.

Table of Contents

Our quarterly financial results may vary.

We expect our financial results to vary from quarter to quarter. Such variations are likely to be caused by many factors that are, to some extent, outside our control, including:

- the mix, timing, and completion of customer projects;
- unforeseen costs on fixed- or unit-price contracts;
- implementation and transition issues with respect to new contracts;
- hiring, integrating, and utilizing associates;
- the timing of new contracts and changes in scope of services performed under existing contracts;
- the resolution of outstanding tax issues from prior years;

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.

4

Table of Contents

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)

Edgar Filing: PEROT SYSTEMS CORP - Form 10-K

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.

5

Table of Contents

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.

6

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

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.

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

(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.

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

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 April 2, 2016	January 2, 2016	Maturity Date
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.

Table of Contents

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			

10

Table of Contents

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, April 4, 2016 2015
Foreign exchange contracts	\$(5,578) \$11,185

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

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:

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

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

(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

Table of Contents

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 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 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.

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

(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

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

	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

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries that are eliminated upon consolidation.

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

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

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	—	3,700	—	62,325
Total current liabilities	417,389	50,793	900,592	(262)	1,368,512
Long-term debt	2,841,461	—	121,963	—	2,963,424
Pension and postretirement benefits	265,495	—	57,091	—	322,586
Payables to related entities	7,803,803	3,822,944	1,658,576	(13,285,323)	—
Other noncurrent liabilities	94,402	11,777	109,319	—	215,498
Total liabilities	11,422,550	3,885,514	2,847,541	(13,285,585)	4,870,020
Stockholders' equity	952,041	4,441,064	2,769,968	(7,211,032)	952,041
Total liabilities and stockholders' equity	\$12,374,591	\$8,326,578	\$5,617,509	\$(20,496,617)	\$5,822,061

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

Condensed Consolidating Balance Sheet
January 2, 2016

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$6,348	\$7,683	\$ 305,138	\$—	\$ 319,169
Trade accounts receivable, net	92,287	68,710	520,697	(1,277)	680,417
Inventories	1,123,320	145,533	656,714	(110,965)	1,814,602
Other current assets	32,793	10,775	57,331	2,780	103,679
Total current assets	1,254,748	232,701	1,539,880	(109,462)	2,917,867
Property, net	96,223	42,619	511,620	—	650,462
Trademarks and other identifiable intangibles, net	4,166	130,296	566,053	—	700,515
Goodwill	232,882	242,186	359,247	—	834,315
Investments in subsidiaries	4,595,424	2,229,254	—	(6,824,678)	—
Deferred tax assets	362,414	72,448	10,317	—	445,179
Receivables from related entities	5,145,108	5,099,420	2,366,888	(12,611,416)	—
Other noncurrent assets	38,938	319	9,995	—	49,252
Total assets	\$ 11,729,903	\$ 8,049,243	\$ 5,364,000	\$(19,545,556)	\$ 5,597,590
Liabilities and Stockholders'					
Equity					
Accounts payable	\$248,114	\$21,733	\$ 403,125	\$—	\$ 672,972
Accrued liabilities	168,440	51,766	240,528	(401)	460,333
Notes payable	—	—	117,785	—	117,785
Accounts Receivable Securitization Facility	—	—	195,163	—	195,163
Current portion of long-term debt	54,094	—	3,562	—	57,656
Total current liabilities	470,648	73,499	960,163	(401)	1,503,909
Long-term debt	2,115,081	—	117,631	—	2,232,712
Pension and postretirement benefits	307,738	—	54,528	—	362,266
Payables to related entities	7,462,706	3,691,969	1,456,741	(12,611,416)	—
Other noncurrent liabilities	97,839	11,659	113,314	—	222,812
Total liabilities	10,454,012	3,777,127	2,702,377	(12,611,817)	4,321,699
Stockholders' equity	1,275,891	4,272,116	2,661,623	(6,933,739)	1,275,891
Total liabilities and stockholders' equity	\$ 11,729,903	\$ 8,049,243	\$ 5,364,000	\$(19,545,556)	\$ 5,597,590

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

	Condensed Consolidating Statement of Cash Flows Three Months Ended April 2, 2016				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net cash from operating activities	\$(173,346)	\$ 107,704	\$ (26,118)	\$ (193,046)	\$ (284,806)
Investing activities:					
Purchases of property, plant and equipment	(9,008)	(4,446)	(14,405)	—	(27,859)
Proceeds from sales of assets	15,338	—	(52)	—	15,286
Acquisition of business, net of cash acquired	—	—	(7,062)	—	(7,062)
Net cash from investing activities	6,330	(4,446)	(21,519)	—	(19,635)
Financing activities:					
Borrowings on notes payable	—	—	368,778	—	368,778
Repayments on notes payable	—	—	(367,016)	—	(367,016)
Borrowings on Accounts Receivable Securitization Facility	—	—	53,261	—	53,261
Repayments on Accounts Receivable Securitization Facility	—	—	(48,424)	—	(48,424)
Borrowings on Revolving Loan Facility	1,471,500	—	—	—	1,471,500
Repayments on Revolving Loan Facility	(732,500)	—	—	—	(732,500)
Repayments on Term Loan A Facility	(9,063)	—	—	—	(9,063)
Repayments on Term Loan B Facility	(1,063)	—	—	—	(1,063)
Borrowings on International Debt	—	—	2,895	—	2,895
Repayments on International Debt	—	—	(1,728)	—	(1,728)
Cash dividends paid	(42,683)	—	—	—	(42,683)
Share repurchases	(379,901)	—	—	—	(379,901)
Taxes paid related to net shares settlement of equity awards	(837)	—	—	—	(837)
Excess tax benefit from stock-based compensation	924	—	—	—	924
Debt issuance costs and other	980	—	(439)	—	541
Net transactions with related entities	(125,734)	(105,115)	37,803	193,046	—
Net cash from financing activities	181,623	(105,115)	45,130	193,046	314,684
Effect of changes in foreign exchange rates on cash	—	—	3,010	—	3,010
Change in cash and cash equivalents	14,607	(1,857)	503	—	13,253
Cash and cash equivalents at beginning of year	6,348	7,683	305,138	—	319,169
Cash and cash equivalents at end of period	\$20,955	\$ 5,826	\$ 305,641	\$ —	\$ 332,422

Table of Contents

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

(unaudited)

	Condensed Consolidating Statement of Cash Flow Three Months Ended April 4, 2015				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net cash from operating activities	\$(115,241)	\$ 68,660	\$ (391,119)	\$ 178,355	\$(259,345)
Investing activities:					
Purchases of property, plant and equipment	(8,864)	(3,796)	(23,708)	—	(36,368)
Proceeds from sales of assets	—	4,322	413	—	4,735
Net cash from investing activities	(8,864)	526	(23,295)	—	(31,633)
Financing activities:					
Borrowings on notes payable	—	—	43,828	—	43,828
Repayments on notes payable	—	—	(61,137)	—	(61,137)
Borrowings on Accounts Receivable Securitization Facility	—	—	79,039	—	79,039
Repayments on Accounts Receivable Securitization Facility	—	—	(90,393)	—	(90,393)
Borrowings on Revolving Loan Facility	1,327,500	—	—	—	1,327,500
Repayments on Revolving Loan Facility	(921,000)	—	—	—	(921,000)
Cash dividends paid	(40,083)	—	—	—	(40,083)
Repayments on Euro Term Loan Facility	—	—	(974)	—	(974)
Borrowings on International Debt	—	—	3,352	—	3,352
Repayments on International Debt	—	—	(1,913)	—	(1,913)
Taxes paid related to net shares settlement of equity awards	(17,982)	—	—	—	(17,982)
Excess tax benefit from stock-based compensation	12,833	—	—	—	12,833
Other	1,183	—	(493)	(6)	684
Net transactions with related entities	(245,013)	(67,871)	491,233	(178,349)	—
Net cash from financing activities	117,438	(67,871)	462,542	(178,355)	333,754
Effect of changes in foreign exchange rates on cash	—	—	(5,564)	—	(5,564)
Change in cash and cash equivalents	(6,667)	1,315	42,564	—	37,212
Cash and cash equivalents at beginning of year	10,910	10,796	218,149	—	239,855
Cash and cash equivalents at end of period	\$4,243	\$ 12,111	\$ 260,713	\$ —	\$ 277,067

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" in this Quarterly Report on Form 10-Q for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended January 2, 2016, which were included in our Annual Report on Form 10-K filed with the SEC. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those included elsewhere in this Quarterly Report on Form 10-Q and those included in the "Risk Factors" section and elsewhere in our Annual Report on Form 10-K for the year ended January 2, 2016.

Overview

We are a consumer goods company with a portfolio of leading apparel brands, including Hanes, Champion, Maidenform, DIM, Playtex, Bali, JMS/Just My Size, Nur Die/Nur Der, L'eggs, Lovable, Wonderbra, Flexees, Lilyette, Gear for Sports, Shock Absorber, Abanderado, Rinbros and Zorba. We design, manufacture, source and sell a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, children's underwear, activewear, socks and hosiery.

Our operations are managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear, Direct to Consumer and International. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms. As a result of a shift in management responsibilities, we decided in the first quarter of 2016 to move our wholesale e-commerce business from our Direct to Consumer segment to the respective Innerwear and Activewear segments. In addition, we decided in the first quarter of 2016 to revise the manner in which we allocate certain selling, general and administrative expenses. Prior year segment sales and operating profit results have been revised to conform to the current year presentation.

Highlights from the Quarter Ended April 2, 2016

Key financial highlights are as follows:

Total net sales in the first quarter of 2016 were \$1.22 billion, compared with \$1.21 billion in the same period of 2015, representing a 1% increase.

Operating profit increased 36% to \$122 million in the first quarter of 2016, compared with \$90 million in the same period of 2015. As a percentage of sales, operating profit was 10.0% in the first quarter of 2016 compared to 7.4% in the same period of 2015. Included within operating profit for the first quarter of 2016 and 2015 were acquisition, integration and other action related charges of \$25 million and \$43 million, respectively.

Diluted earnings per share increased 62% to \$0.21 in the first quarter of 2016, compared with diluted earnings per share of \$0.13 in the same period of 2015.

We purchased approximately 14.2 million shares of our stock for approximately \$380 million at a weighted average cost per share of \$26.65.

Subsequent to quarter end, on April 7, 2016, we announced that we had entered into a definitive agreement to acquire Champion Europe. 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 million. The acquisition, which is subject to certain closing conditions, is expected to close midyear 2016.

Outlook

We expect our 2016 full year net sales to be approximately \$5.8 to \$5.9 billion.

Interest expense and other expenses are expected to be approximately \$115 million to \$120 million.

We estimate our full year effective income tax rate to be approximately 10% to 11%.

We expect net cash flow from operations to be in the range of \$750 million to \$850 million. Net capital expenditures are expected to be approximately \$70 million. Pretax acquisition and integration related charges are expected to be approximately \$85 million.

Table of Contents

Seasonality and Other Factors

Our operating results are subject to some variability due to seasonality and other factors. Generally, our diverse range of product offerings helps mitigate the impact of seasonal changes in demand for certain items. We generally have higher sales during the back-to-school and holiday shopping seasons and during periods of cooler weather, which benefits certain product categories such as fleece. Sales levels in any period are also impacted by customers' decisions to increase or decrease their inventory levels in response to anticipated consumer demand. Our customers may cancel or change delivery schedules, manage on-hand inventory levels, or change the mix of products ordered with minimal notice to us. Media, advertising and promotion expenses may vary from period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions.

Although the majority of our products are replenishment in nature and tend to be purchased by consumers on a planned, rather than on an impulse basis, our sales are impacted by discretionary spending by consumers.

Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, taxation, gasoline prices, weather, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside of our control. Consumers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. These consumers may choose to purchase fewer of our products or to purchase lower-priced products of our competitors in response to higher prices for our products, or may choose not to purchase our products at prices that reflect our price increases that become effective from time to time.

Changes in product sales mix can impact our gross profit as the percentage of our sales attributable to higher margin products, such as intimate apparel and men's underwear, and lower margin products, such as activewear, fluctuate from time to time. In addition, sales attributable to higher and lower margin products within the same product category fluctuate from time to time. Our customers may change the mix of products ordered with minimal notice to us, which makes trends in product sales mix difficult to predict. However, certain changes in product sales mix are seasonal in nature, as sales of socks, hosiery and fleece products generally have higher sales during the last two quarters (July to December) of each fiscal year as a result of cooler weather, back-to-school shopping and holidays, while other changes in product mix may be attributable to customers' preferences and discretionary spending.

Condensed Consolidated Results of Operations — First Quarter Ended April 2, 2016 Compared with First Quarter Ended April 4, 2015

	Quarter Ended			
	April 2, 2016	April 4, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$1,219,140	\$1,208,921	\$10,219	0.8 %
Cost of sales	761,884	762,690	(806)	(0.1)
Gross profit	457,256	446,231	11,025	2.5
Selling, general and administrative expenses	334,851	356,300	(21,449)	(6.0)
Operating profit	122,405	89,931	32,474	36.1
Other expenses	649	382	267	69.9
Interest expense, net	31,566	26,887	4,679	17.4
Income before income tax expense	90,190	62,662	27,528	43.9
Income tax expense	9,921	10,026	(105)	(1.0)
Net income	\$80,269	\$52,636	\$27,633	52.5 %

Net Sales

Net sales increased 1% during the first quarter of 2016 primarily due to the following:

- Acquisition of Knights Apparel in April 2015, which added an incremental \$21 million of net sales in 2016;
- Higher net sales in our Innerwear segment primarily driven by sales of basic apparel in the mass merchant channel;
- and

Continued growth in the Activewear segment within the licensed sports apparel business.

Offset by:

Lower sales in the mid-tier and department store channel;

21

Table of Contents

• Lower sales in our Direct to Consumer segment due to lower comparable store sales and the planned reduction of our catalog distribution; and

• Unfavorable foreign currency exchange rates. Excluding the impact of foreign currency reductions, consolidated net sales and International segment net sales increased 2% and increased 3%, respectively.

Gross Profit

The increase in gross profit was attributable to a sales shift to higher margin products, reduced acquisition, integration and other action related costs, supply chain efficiencies and benefits from our Innovate-to-Elevate strategy, which combines our brand power, our innovation platforms and our low cost supply chain to drive margin expansion by increasing our price per unit and reducing our cost per unit. Included in gross profit in the first quarters of 2016 and 2015 are charges of approximately \$5 million and \$14 million, respectively, related to acquisition, integration and other action related costs.

Selling, General and Administrative Expenses

As a percentage of net sales, our selling, general and administrative expenses were 27.5% for the first quarter of 2016 compared to 29.5% in the same period of 2015. Included in selling, general and administrative expenses were charges of \$20 million and \$29 million of acquisition, integration and other action related costs for the first quarters of 2016 and 2015, respectively. Exclusive of acquisition, integration and other action related costs and the purchase of Knights Apparel, selling, general and administrative expenses were lower due to synergy benefits from the integration of acquisitions, planned reduction of our catalog distribution and continued cost control.

Other Highlights

Interest Expense – higher by \$5 million in the first quarter of 2016 compared to the first quarter of 2015 primarily due to higher debt balances to fund share repurchases and working capital needs. Our weighted average interest rate on our outstanding debt was 3.59% during the first quarter of 2016, compared to 4.04% in the first quarter of 2015.

Income Tax Expense – our effective income tax rate was 11% and 16% for the first quarter of 2016 and 2015, respectively. The lower tax rate in 2016 compared to the same period in 2015 is primarily due to a lower proportion of earnings attributed to domestic subsidiaries, which are taxed at rates higher than foreign subsidiaries.

Operating Results by Business Segment — First Quarter Ended April 2, 2016 Compared with First Quarter Ended April 4, 2015

	Net Sales		Operating Profit	
	Quarter Ended		Quarter Ended	
	April 2,	April 4,	April 2,	April 4,
	2016	2015	2016	2015
	(dollars in thousands)			
Innerwear	\$560,726	\$553,604	\$117,972	\$116,063
Activewear	309,525	301,010	32,569	31,170
Direct to Consumer	69,802	71,157	(3,022)	(4,530)
International	279,087	283,150	24,719	21,495
Corporate	—	—	(49,833)	(74,267)
Total	\$1,219,140	\$1,208,921	\$122,405	\$89,931

Innerwear

	Quarter Ended		Higher	Percent
	April 2,	April 4,	(Lower)	Change
	2016	2015		
	(dollars in thousands)			
Net sales	\$560,726	\$553,604	\$7,122	1.3 %
Segment operating profit	117,972	116,063	1,909	1.6 %

The higher net sales in our Innerwear segment primarily resulted from stronger net sales within the mass merchant channel, offset by softness in the mid-tier and department store channel.

Increased operating profit was driven largely by increased sales and continued cost control offset by costs associated with our inventory reduction related efforts.

Table of Contents

Activewear

	Quarter Ended			
	April 2, 2016	April 4, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$309,525	\$301,010	\$8,515	2.8 %
Segment operating profit	32,569	31,170	1,399	4.5

Activewear net sales increased due to the following:

- The acquisition of Knights Apparel in April 2015, which added an incremental \$21 million of net sales in 2016; and
- Continued growth in our licensed sports apparel business.

Partially offset by:

- A bankruptcy of a large sporting goods retailer; and
- Space shifts within our seasonal activewear business.

Operating profit within the Activewear segment increased primarily as a result of higher sales volume.

Direct to Consumer

	Quarter Ended			
	April 2, 2016	April 4, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$69,802	\$71,157	\$(1,355)	(1.9)%
Segment operating profit	(3,022)	(4,530)	1,508	33.3

Direct to Consumer segment net sales were lower as a result of increased online sales, offset by reduced comparable store sales and reduced catalog sales.

Operating margins increased due to cost savings related to our catalog distribution, offset by lower sales.

International

	Quarter Ended			
	April 2, 2016	April 4, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$279,087	\$283,150	\$(4,063)	(1.4)%
Segment operating profit	24,719	21,495	3,224	15.0

Net sales in the International segment were lower as a result of the following:

- \$12 million unfavorable impact of foreign currency exchange rates; and
- The planned exit of small, low performing brands in Hanes Europe Innerwear.

Offset by:

- Continued space gains in Asia within our Activewear product category.

Operating profit increased primarily due to higher sales volume in Asia and cost synergies in our Hanes Europe Innerwear business, partially offset by foreign currency exchange rates.

Corporate

Corporate expenses were comprised primarily of certain administrative costs and acquisition, integration and other action related charges totaling \$25 million in the first quarter of 2016 as compared to \$43 million for the first quarter of 2015. Acquisition and integration costs are expenses related directly to an acquisition and its integration into the organization. These costs include legal fees, consulting fees, bank fees, severance costs, certain purchase accounting items, facility closures, inventory write-offs, infrastructure (including information technology), and similar charges. Foundational costs are expenses associated with building infrastructure to support and integrate current and future acquisitions; primarily consisting of information technology spend. Other costs relate to other items not included in the aforementioned categories such as charges

Table of Contents

incurred related to the Target exit from Canada in the first quarter of 2015 and its related bankruptcy and other international realignment and configuration activities. Maidenform acquisition and integration costs and foundational costs were completed in 2015.

	Quarter Ended	
	April 2, 2016	April 4, 2015
	(dollars in thousands)	
Acquisition and integration costs:		
Hanes Europe Innerwear	\$19,034	\$23,005
Knights Apparel	3,910	1,102
Maidenform	—	4,267
Champion Japan licensee transaction	1,725	—
Total acquisition and integration costs	24,669	28,374
Foundational costs	—	6,727
Other costs	—	8,127
	\$24,669	\$43,228

Liquidity and Capital Resources

Trends and Uncertainties Affecting Liquidity

Our primary sources of liquidity are cash generated by operations and availability under the \$1.0 billion revolving credit facility (the “Revolving Loan Facility”) under our senior secured credit facility (the “Senior Secured Credit Facility”), our accounts receivable securitization facility (the “Accounts Receivable Securitization Facility”) and our international loan facilities.

At April 2, 2016, we had \$182 million of borrowing availability under our Revolving Loan Facility (after taking into account outstanding letters of credit), \$101 million of borrowing availability under our international loan facilities, \$332 million in cash and cash equivalents and no borrowing availability under our Accounts Receivable Securitization Facility. We currently believe that our existing cash balances and cash generated by operations, together with our available credit capacity, will enable us to comply with the terms of our indebtedness and meet foreseeable liquidity requirements.

The following have impacted or are expected to impact our liquidity:

- we have principal and interest obligations under our debt;
- we acquired Knights Apparel in April 2015 and have announced our intent to acquire Champion Europe mid-year 2016 and we may pursue additional strategic business acquisitions in the future;
- we expect to continue to invest in efforts to improve operating efficiencies and lower costs;
- we made a \$100 million contribution to our pension plans in January 2015 and a \$40 million contribution in January 2016;
- we may increase or decrease the portion of the current-year income of our foreign subsidiaries that we remit to the United States, which could significantly impact our effective income tax rate;
- our Board of Directors has authorized a regular quarterly dividend; and
- our Board of Directors has authorized share repurchases under our previously authorized share repurchase program.

Dividends

As part of our cash deployment strategy, in January 2016, our Board of Directors declared a regular quarterly dividend of \$0.11 per share, which was paid in March 2016.

Share Repurchase Program

We resumed repurchasing Company common stock in the open market during the third quarter of 2015 under a program previously announced in 2007. Our Board of Directors authorized up to 40 million 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, we entered into transactions to repurchase 14 million shares at a weighted average repurchase price of

Table of Contents

\$26.65 per share. The shares were repurchased at a total cost of \$380 million. Since inception of the program, we have purchased 37.7 million shares, leaving 2.3 million shares authorized for repurchase under the program. The program does not obligate us to acquire any particular amount of common stock and may be suspended or discontinued at any time at our discretion.

Cash Requirements for Our Business

We rely on our cash flows generated from operations and the borrowing capacity under our Revolving Loan Facility, Accounts Receivable Securitization Facility and international loan facilities to meet the cash requirements of our business. The primary cash requirements of our business are payments to vendors in the normal course of business, capital expenditures, maturities of debt and related interest payments, contributions to our pension plans, repurchases of our stock and regular quarterly dividend payments. We believe we have sufficient cash and available borrowings for our foreseeable liquidity needs.

There have been no significant changes in the cash requirements for our business from those described in our Annual Report on Form 10-K for the year ended January 2, 2016.

Sources and Uses of Our Cash

The information presented below regarding the sources and uses of our cash flows for the three months ended April 2, 2016 and April 4, 2015 was derived from our condensed consolidated financial statements.

	Quarter ended	
	April 2, 2016	April 4, 2015
	(dollars in thousands)	
Operating activities	\$(284,806)	\$(259,345)
Investing activities	(19,635)	(31,633)
Financing activities	314,684	333,754
Effect of changes in foreign currency 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

Operating Activities

Our overall liquidity is primarily driven by our strong cash flow provided by operating activities, which is dependent on net income, as well as changes in our working capital. We typically use cash during the first half of the year and generate most of our cash flow in the second half of the year. As compared to prior year, the lower net cash from operating activities is due to changes in working capital, specifically related to accounts payable and accrued liabilities, partially offset by a smaller voluntary pension contribution in the first quarter of 2016 of \$40 million compared to \$100 million in the same period of 2015. The increase in inventory in the first quarter is in line with our normal seasonal build as we typically build inventory unit levels to support the back-to-school shopping season. We have initiated inventory reduction efforts in the first quarter of 2016 that will continue through the second quarter and expected to generate cash flow in the second half of 2016.

Investing Activities

The lower net cash used in investing activities is the result of lower capital spending and increased cash proceeds from sale of assets in 2016 compared to the same period in 2015. Offsetting, in part, the aforementioned favorable investing cash flow activity was the investment to re-acquire the remainder of the rights to Champion in Japan from Goldwin, Inc.

Financing Activities

The lower net cash from financing activities was primarily the result of our share repurchases in the quarter, offset by higher net borrowings on our loan facilities, specifically due to new borrowings under the Senior Secured Credit Facility.

Financing Arrangements

In March 2016, we amended the accounts receivable securitization facility that we 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 to a varying limit throughout the year, in order to minimize fees for our unused portion of the facility.

25

Table of Contents

As of April 2, 2016, we were in compliance with all financial covenants under our credit facilities. We expect to maintain compliance with these covenants for the foreseeable future, however economic conditions or the occurrence of events discussed under “Risk Factors” in our Annual Report on Form 10-K for the year ended January 2, 2016 or other SEC filings could cause noncompliance.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements within the meaning of Item 303(a)(4) of SEC Regulation S-K.

Critical Accounting Policies and Estimates

We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial condition in conformity with U.S. GAAP. We apply these accounting policies in a consistent manner. Our significant accounting policies are discussed in Note 2, “Summary of Significant Accounting Policies,” to our financial statements included in our Annual Report on Form 10-K for the year ended January 2, 2016.

The application of critical accounting policies requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. These estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. We evaluate these estimates and assumptions on an ongoing basis and may retain outside consultants to assist in our evaluation. If actual results ultimately differ from previous estimates, the revisions are included in results of operations in the period in which the actual amounts become known. The critical accounting policies that involve the most significant management judgments and estimates used in preparation of our financial statements, or are the most sensitive to change from outside factors, are discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended January 2, 2016. There have been no material changes in these policies from those described in our Annual Report on Form 10-K for the year ended January 2, 2016.

Recently Issued Accounting Pronouncements

For a summary of recently issued accounting pronouncements, see Note, “Recent Accounting Pronouncements” to our financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no significant changes in our market risk exposures from those described in Item 7A of our Annual Report on Form 10-K for the year ended January 2, 2016.

Item 4. Controls and Procedures

As required by Exchange Act Rule 13a-15(b), our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. In connection with the evaluation required by Exchange Act Rule 13a-15(d), our management, including our Chief Executive Officer and Chief Financial Officer, concluded that no changes in our internal control over financial reporting occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

Item 1. Legal Proceedings

Although we are subject to various claims and legal actions that occur from time to time in the ordinary course of our business, we are not party to any pending legal proceedings that we believe could have a material adverse effect on our business, results of operations, financial condition or cash flows.

Item 1A. Risk Factors

The risk factors that affect our business and financial results are discussed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2016. There are no material changes to the risk factors previously disclosed, nor have we identified any previously undisclosed risks that could materially adversely affect our business and financial results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Repurchases of Equity Securities

The following table sets forth information in connection with purchases made by, or on behalf of, the Company or any affiliate purchaser of the Company, of shares of the Company's common stock during the year ended January 2, 2016.

	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased under the Program
January 3, 2016 to February 6, 2016	—	—	—	16,503,527
February 7, 2016 to March 5, 2016	14,242,829	26.65	14,242,829	2,260,698
March 6, 2016 to April 2, 2016	—	—	—	2,260,698
Total	14,242,829		14,242,829	

(1) On February 1, 2007, the Company announced that the Board of Directors granted authority for the repurchase of up to 40 million shares of the Company's common stock. Since inception of the program, the Company has purchased 37.7 million shares, leaving 2.3 million shares that may yet be purchased under the program.

(2) Average price paid per share for shares purchased as part of our publicly-announced plan.

We net settle our employee stock option exercises and restricted stock unit and performance stock unit vestings, which result in the withholding of shares to cover the option exercise price and the minimum statutory withholding tax obligations that we are required to pay in cash to the applicable taxing authorities on behalf of our employees. We do not consider these transactions to be common stock repurchases.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or furnished as part of this Quarterly Report on Form 10-Q.

28

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HANESBRANDS INC.

By: /s/ Richard D. Moss

Richard D. Moss

Chief Financial Officer

(Duly authorized officer and principal financial officer)

Date: April 26, 2016

Table of Contents

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of Hanesbrands Inc. (incorporated by reference from Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).
3.2	Articles Supplementary (Junior Participating Preferred Stock, Series A) (incorporated by reference from Exhibit 3.2 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).
3.3	Articles of Amendment to Articles of Amendment and Restatement of Hanesbrands Inc. (incorporated by reference from Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 28, 2015).
3.4	Articles Supplementary (Reclassifying Junior Participating Preferred Stock, Series A) (incorporated by reference from Exhibit 3.1 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2015).
3.5	Amended and Restated Bylaws of Hanesbrands Inc. (incorporated by reference from Exhibit 3.2 to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2015).
4.1	Sixteenth Supplemental Indenture (to the 2008 Indenture) dated March 11, 2016 among Hanesbrands Inc., certain subsidiaries of Hanesbrands Inc. and Branch Banking and Trust Company (incorporated by reference from Exhibit 4.22 to the Registrant’s Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (Commission file number 333-192932) filed with the Securities and Exchange Commission on April 15, 2016).
31.1	Certification of Richard A. Noll, Chief Executive Officer.
31.2	Certification of Richard D. Moss, Chief Financial Officer.
32.1	Section 1350 Certification of Richard A. Noll, Chief Executive Officer.
32.2	Section 1350 Certification of Richard D. Moss, Chief Financial Officer.
101.INS XBRL	Instance Document
101.SCH XBRL	Taxonomy Extension Schema Document
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document
101.LAB XBRL	Taxonomy Extension Label Linkbase Document
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document

E-1