Hanesbrands Inc.
Form 10-Q
November 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-32891

Hanesbrands Inc.
(Exact name of registrant as specified in its charter)

Maryland	20-3552316
(State of incorporation)	(I.R.S. employer identification no.)

1000 East Hanes Mill Road Winston-Salem, North Carolina	27105
(Address of principal executive office)	(Zip code)

(336) 519-8080
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	¨		
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨	Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange
Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No x
As of October 27, 2017, there were 364,584,181 shares of the registrant’s common stock outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue” or similar expressio particular, statements under the heading “Outlook” and other information appearing under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” include forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements.

Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission (the “SEC”), including this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2016, under the caption “Risk Factors,” and available on the “Investors” section of our corporate website, www.Hanes.com/investors.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 31, 2016, particularly under the caption “Risk Factors.” We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read our SEC filings over the Internet at the SEC’s website at www.sec.gov. To receive copies of public records not posted to the SEC’s web site at prescribed rates, you may complete an online form at www.sec.gov, send a fax to (202) 772-9337 or submit a written request to the SEC, Office of FOIA/PA Operations, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information.

We make available free of charge at www.Hanes.com/investors (in the “Investors” section) copies of materials we file with, or furnish to, the SEC. By referring to our corporate website, www.Hanes.com/corporate, or any of our other websites, we do not incorporate any such website or its contents into this Quarterly Report on Form 10-Q.

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PART I

Item 1. Financial Statements

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

	Quarter Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net sales	$1,799,270	$1,761,019	$4,826,235	$4,452,890
Cost of sales	1,120,813	1,111,653	2,962,345	2,788,977
Gross profit	678,457	649,366	1,863,890	1,663,913
Selling, general and administrative expenses	425,153	421,014	1,260,641	1,091,946
Operating profit	253,304	228,352	603,249	571,967
Other expenses	1,881	1,559	4,659	50,533
Interest expense, net	43,917	43,433	130,184	111,539
Income from continuing operations before income tax expense	207,506	183,360	468,406	409,895
Income tax expense	4,150	10,570	19,804	28,693
Income from continuing operations	203,356	172,790	448,602	381,202
Income (loss) from discontinued operations, net of tax	—	1,068	(2,097)	1,068
Net income	$203,356	$173,858	$446,505	$382,270
Earnings per share — basic:				
Continuing operations	$0.56	$0.46	$1.22	$1.00
Discontinued operations	—	—	(0.01)	—
Net income	$0.56	$0.46	$1.21	$1.00
Earnings per share — diluted:				
Continuing operations	$0.55	$0.45	$1.21	$0.99
Discontinued operations	—	—	(0.01)	—
Net income	$0.55	$0.45	$1.20	$0.99

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.
Condensed Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Quarter Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net income	$203,356	$173,858	$446,505	$382,270
Other comprehensive income (loss), net of tax of $1,427, ($247), $7,870 and ($701), respectively	5,051	(2,713)	9,349	13,691
Comprehensive income	$208,407	$171,145	$455,854	$395,961

See accompanying notes to Condensed Consolidated Financial Statements.
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HANESBRANDS INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)
(unaudited)

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 400,045	$ 460,245
Trade accounts receivable, net	1,009,188	836,924
Inventories	1,953,918	1,840,565
Other current assets	196,875	137,535
Current assets of discontinued operations	—	45,897
Total current assets	3,560,026	3,321,166
Property, net	624,602	692,464
Trademarks and other identifiable intangibles, net	1,371,007	1,285,458
Goodwill	1,141,942	1,098,540
Deferred tax assets	504,059	464,872
Other noncurrent assets	79,087	67,980
Total assets	$ 7,280,723	$ 6,930,480
Liabilities and Stockholders’ Equity		
Accounts payable	$ 852,671	$ 761,647
Accrued liabilities	614,599	619,795
Notes payable	23,969	56,396
Accounts Receivable Securitization Facility	250,995	44,521
Current portion of long-term debt	154,395	133,843
Current liabilities of discontinued operations	—	9,466
Total current liabilities	1,896,629	1,625,668
Long-term debt	3,566,547	3,507,685
Pension and postretirement benefits	378,573	371,612
Other noncurrent liabilities	207,807	201,601
Total liabilities	6,049,556	5,706,566
Stockholders’ equity:		
Preferred stock (50,000,000 authorized shares; $.01 par value)		
Issued and outstanding — None	—	—
Common stock (2,000,000,000 authorized shares; $.01 par value)		
Issued and outstanding — 364,571,559 and 378,687,052, respectively	3,646	3,787
Additional paid-in capital	267,675	260,002
Retained earnings	1,386,488	1,396,116
Accumulated other comprehensive loss	(426,642)	(435,991)
Total stockholders’ equity	1,231,167	1,223,914
Total liabilities and stockholders’ equity	$ 7,280,723	$ 6,930,480

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 30, 2017	October 1, 2016
Operating activities:		
Net income	$446,505	$382,270
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization of long-lived assets	89,762	73,715
Write-off on early extinguishment of debt	2,153	12,667
Charges incurred for amendments of credit facilities	—	34,624
Amortization of debt issuance costs	7,943	6,401
Stock compensation expense	6,351	16,292
Deferred taxes and other	(12,744)	(18,938)
Changes in assets and liabilities, net of acquisition of businesses:		
Accounts receivable	(147,933)	(198,217)
Inventories	(74,945)	4,557
Other assets	(42,664)	(6,167)
Accounts payable	71,264	(80,589)
Accrued pension and postretirement benefits	15,021	(34,419)
Accrued liabilities and other	(29,623)	16,095
Net cash from operating activities	331,090	208,291
Investing activities:		
Purchases of property, plant and equipment	(60,418)	(65,439)
Proceeds from sales of assets	4,398	68,701
Acquisition of businesses, net of cash acquired	(524)	(963,127)
Disposition of businesses	40,285	—
Net cash from investing activities	(16,259)	(959,865)
Financing activities:		
Borrowings on notes payable	212,804	854,915
Repayments on notes payable	(249,708)	(943,893)
Borrowings on Accounts Receivable Securitization Facility	342,315	194,549
Repayments on Accounts Receivable Securitization Facility	(135,841)	(145,638)
Borrowings on Revolving Loan Facilities	2,957,799	2,995,442
Repayments on Revolving Loan Facilities	(2,738,000)	(2,992,000)
Borrowings on Senior Notes	—	2,359,347
Repayments on Senior Notes	—	(1,000,000)
Borrowings on Term Loan Facilities	—	301,272
Repayments on Term Loan Facilities	(201,281)	(154,670)
Borrowings on International Debt	—	8,368
Repayments on International Debt	(44,073)	(11,186)
Share repurchases	(299,919)	(379,901)
Cash dividends paid	(165,211)	(125,798)
Payments to amend and refinance credit facilities	(559)	(79,492)
Payment of contingent consideration	(41,250)	—
Taxes paid related to net shares settlement of equity awards	(8,075)	(2,919)

Other	3,401	1,529
Net cash from financing activities	(367,598)	879,925
Effect of changes in foreign exchange rates on cash	(7,433)	2,693
Change in cash and cash equivalents	(60,200)	131,044
Cash and cash equivalents at beginning of year	460,245	319,169
Cash and cash equivalents at end of period	$400,045	$450,213

See accompanying notes to Condensed Consolidated Financial Statements.

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

(1) Basis of Presentation

These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management believes that the disclosures made are adequate for a fair statement of the results of operations, financial condition and cash flows of Hanesbrands Inc., a Maryland corporation, and its consolidated subsidiaries (the "Company" or "Hanesbrands"). In the opinion of management, the condensed consolidated interim financial statements reflect all adjustments, which consist only of normal recurring adjustments, necessary to state fairly the results of operations, financial condition and cash flows for the interim periods presented herein. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates. Three subsidiaries of the Company close on the calendar month-end, which is less than a week different than the Company's consolidated quarter end. The difference in reporting of financial information for these subsidiaries did not have a material impact on the Company's financial condition, results of operations or cash flows.

As a result of further policy harmonization related to acquired businesses, certain prior year amounts in the condensed consolidated financial statements, none of which are material, have been reclassified to conform with the current year presentation. The reclassification on the Condensed Consolidated Balance Sheet is between the "Trade accounts receivable, net" line and the "Accrued liabilities" line of $22,746 as of December 31, 2016. The reclassification on the Condensed Consolidated Statement of Cash Flow is between the "Accounts Receivable" and the "Accrued liabilities and other" line of $2,744 for the nine months ended October 1, 2016. This reclassification 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 GAAP. 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

Inventory

In July 2015, the FASB issued ASU 2015-11, "Inventory: Simplifying the Measurement of Inventory", which requires inventory to be recorded at the lower of cost or net realizable value. The new standard was effective for the Company in the first quarter of 2017. 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.

Hedge Accounting

In March 2016, the FASB issued ASU 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships", 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, was effective for the Company in the first quarter of 2017. Also in March 2016, the FASB issued ASU 2016-06, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments", which clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The new standard was effective for the Company in the first quarter of 2017. The adoption of the new accounting rules did not have a material impact on the Company's financial condition, results of operations and cash flows.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”, a new accounting standard on revenue recognition that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The FASB has subsequently issued updates to the standard to provide additional clarification on specific topics. The new standard will be effective for the Company in the first quarter of 2018 and can be applied using a modified retrospective or full retrospective method. The Company has established an implementation team consisting of finance, accounting and front-end business partners to analyze the impact of the guidance across all of its revenue sources. The Company has evaluated the new standard against its existing accounting policies and practices, including reviewing standard purchase orders, invoices, shipping terms, conducting questionnaires with our global team and reviewing contracts with customers. The Company has not identified any information that would indicate that the new guidance will have a material impact on the Company’s financial statements. The Company expects to have enhanced disclosures related to disaggregation of revenue sources and accounting policies. The Company expects to adopt the new standard in the first quarter of 2018 using the modified retrospective transition method.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”. Issues addressed in the new guidance that are relevant to the Company include debt prepayment and extinguishment costs, contingent consideration payments made after a business combination and beneficial interests in securitization transactions. The new rules will be 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 cash flows.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory”. The new rules eliminate the exception for an intra-entity transfer of an asset other than inventory, which aligns the recognition of income tax consequences for such transfers. The new rules require the recognition of current and deferred income taxes resulting from these transfers when the transfer occurs rather than when it is sold to an external party. The new rules will be 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.

Definition of a Business

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business”. The new rules provide for the application of a screen test to consider whether substantially all the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If the screen test determines this to be true, the set is not a business. The new rules will be 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.

Compensation Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the presentation of net periodic pension cost and net periodic postretirement benefit cost”. The new rules require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The new rules will be effective for the Company in the first quarter of 2018. Early adoption is permitted. 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.

Stock Compensation

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting”. The new rules provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the new rules, an entity should account for the effects of a modification unless the fair value, vesting conditions and classification of the modified award are the same as the original award immediately before the original award is modified. The new rules will be effective for the Company in the first quarter of 2018. Early adoption is permitted. 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 ASU 2016-02, “Leases”, 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.

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities”. The new rules expand the hedging strategies that qualify for hedge accounting, including contractually-specified price components of a commodity purchase or sale, hedges of the benchmark rate component of the contractual coupon cash flows of fixed-rate assets and liabilities, hedges of the portion of a closed portfolio of prepayable assets and partial-term hedges of fixed-rate assets and liabilities. The new rules also allow additional time to complete hedge effectiveness testing and allow qualitative assessments subsequent to initial quantitative tests if there is a supportable expectation that the hedge will remain highly effective. The new rules will be effective for the Company in the first quarter of 2019, with early adoption permitted. 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.

Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. The new rules simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount. The new rules will be effective for the Company in the first quarter of 2020. 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.

(3) Acquisitions

Hanes Australasia

On July 14, 2016, the Company acquired 100% of the outstanding shares of Pacific Brands Limited (“Hanes Australasia”) for a total purchase price of AUD$1,049,360 ($800,871). US dollar equivalents are based on acquisition date exchange rates. The Company funded the acquisition through a combination of cash on hand, a portion of the net proceeds from the 3.5% Senior Notes issued in June 2016 and borrowings under the Australian Term A-1 Loan Facility and the Australian Term A-2 Loan Facility.

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

The acquired assets and assumed liabilities at the date of acquisition (July 14, 2016) include the following:

Cash and cash equivalents	$54,294
Accounts receivable, net	36,019
Inventories	104,806
Other current assets	16,588
Current assets of discontinued operations	50,839
Property, net	34,835
Trademarks and other identifiable intangibles	506,170
Deferred tax assets and other noncurrent assets	23,687
Total assets acquired	827,238
Accounts payable	89,309
Accrued liabilities and other	24,912
Current liabilities of discontinued operations	14,564
Long-term debt	41,976
Deferred tax liabilities and other noncurrent liabilities	16,320
Total liabilities assumed	187,081
Net assets acquired	640,157
Goodwill	160,714
Purchase price	$800,871

Since July 14, 2016, goodwill decreased by $25,434 as a result of measurement period adjustments, primarily related to the valuation adjustments for the Dunlop Flooring and Tontine Pillow businesses and completion of deferred tax balances. The purchase price allocation was finalized in the third quarter of 2017.

Champion Europe

On June 30, 2016, the Company acquired 100% of Champion Europe S.p.A. (“Champion Europe”), which owns the trademark for the Champion brand in Europe, the Middle East and Africa, from certain individual shareholders in an all-cash transaction valued at €220,751 ($245,554) on an enterprise value basis, less working capital adjustments as defined in the purchase agreement, which included €40,700 ($45,277) in estimated contingent consideration. US dollar equivalents are based on acquisition date exchange rates. The Company funded the acquisition through a combination of cash on hand and a portion of the net proceeds from the 3.5% Senior Notes issued in June 2016.

The estimated contingent consideration is included in the “Accrued liabilities” line in the accompanying Condensed Consolidated Balance Sheet and is based on 10 times Champion Europe’s earnings before interest, taxes, depreciation and amortization (“EBITDA”) in excess of €18,600, calculated as defined by the purchase agreement, for the calendar year 2016 and is payable in 2017. The contingent consideration is required to be revalued each reporting period until paid. At September 30, 2017, the contingent consideration payment was pending finalization of Champion Europe’s calendar year 2016 EBITDA calculation in accordance with the purchase agreement. On April 28, 2017, an initial payment of €37,820 ($41,250) was made to the sellers towards the contingent consideration liability, which represents the mutually agreed portion of the contingent consideration. Management continues to evaluate and discuss the proposed adjustments to the EBITDA calculation with the sellers and believes the remaining accrual is consistent with management’s expectations for any additional amount that will be due in connection with the contingent consideration. In addition to the initial payment, additional contingent consideration payments could total up to approximately €46,600.

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

The acquired assets, contingent consideration and assumed liabilities at the date of acquisition (June 30, 2016) include the following:

Cash and cash equivalents	$14,581
Trade accounts receivable, net	27,926
Inventories	53,816
Other current assets	5,976
Property, net	24,605
Trademarks and other identifiable intangibles	135,277
Deferred tax assets and other noncurrent assets	3,777
Total assets acquired	265,958
Accounts payable	66,594
Accrued liabilities and other (including contingent consideration)	60,887
Notes payable	27,748
Deferred tax liabilities and other noncurrent liabilities	20,282
Total liabilities assumed and contingent consideration	175,511
Net assets acquired	90,447
Goodwill	109,830
Initial consideration paid	200,277
Estimated contingent consideration	45,277
Total purchase price	$245,554

Since June 30, 2016, goodwill increased by $1,665 as a result of measurement period adjustments primarily to working capital. The purchase price allocation was finalized in the second quarter of 2017.

Consolidated Pro Forma Results

Consolidated unaudited pro forma results of operations for the Company are presented below assuming that the 2016 acquisitions of Hanes Australasia and Champion Europe had occurred on January 4, 2015. Pro forma operating results for the quarter and nine months ended October 1, 2016 exclude expenses totaling $751 and $6,187 respectively, for acquisition-related adjustments primarily related to inventory and stock compensation.

	Quarter Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net sales	$1,799,270	$1,780,530	$4,826,235	$4,859,619
Net income from continuing operations	203,356	172,040	448,602	448,589
Earnings per share from continuing operations:				
Basic	$0.56	$0.45	$1.22	$1.17
Diluted	0.55	0.45	1.21	1.16

Subsequent Event

On October 13, 2017, the Company acquired 100% of Alternative Apparel, Inc. (“Alternative Apparel”) from Rosewood Capital V, L.P. and certain individual shareholders in an all-cash transaction valued at approximately $60,000 on an enterprise value basis. Alternative Apparel sells the Alternative brand better basics T-shirts, fleece and other tops and bottoms. Alternative is a lifestyle brand known for its comfort, style and social responsibility. The Company funded the acquisition with cash on hand and short term borrowing under the Revolving Loan Facility. The Company believes this acquisition will create growth opportunities by supporting its Activewear growth strategy by expanding its market and channel penetration, including online, supported by the Company’s global low-cost supply chain and manufacturing network. Due to the immaterial nature of this acquisition, the Company has not provided additional disclosures herein.

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

(4) Discontinued Operations

As part of the Company's acquisition of Hanes Australasia, the Company acquired Hanes Australasia's legacy Dunlop Flooring and Tontine Pillow businesses. The Company concluded that these businesses were not a strategic fit; therefore, the decision was made to divest of the businesses.

In February 2017, the Company sold its Dunlop Flooring business for AUD$34,564 ($26,219) in net cash proceeds at the time of sale, with an additional AUD$1,334 ($1,012) of proceeds received in April 2017 related to a working capital adjustment, resulting in a pre-tax loss of AUD$2,715 ($2,083). US dollar equivalents are based on exchange rates on the date of the sale transaction. The Dunlop Flooring business was reported as part of discontinued operations since the date of acquisition.

In March 2017, the Company sold its Tontine Pillow business for AUD$13,500 ($10,363) in net cash proceeds at the time of sale. A working capital adjustment of AUD$966 ($742) was paid to the buyer in April 2017, resulting in a net pre-tax gain of AUD$2,415 ($1,856). US dollar equivalents are based on exchange rates on the date of the sale transaction. The Tontine Pillow business was reported as part of discontinued operations since the date of acquisition.

The operating results of these discontinued operations only reflect revenues and expenses that are directly attributable to these businesses that were eliminated from ongoing operations. The key components from discontinued operations related to the Dunlop Flooring and Tontine Pillow businesses were as follows:

	Quarter Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net sales	$ —	$ 15,587	$ 6,865	$ 15,587
Cost of sales	—	9,996	4,507	9,996
Gross profit	—	5,591	2,358	5,591
Selling, general and administrative expenses	—	3,570	3,729	3,570
Operating profit (loss)	—	2,021	(1,371)	2,021
Other expenses	—	495	303	495
Net loss on disposal of businesses	—	—	242	—
Income (loss) from discontinued operations before income tax expense	—	1,526	(1,916)	1,526
Income tax expense	—	458	181	458
Net income (loss) from discontinued operations, net of tax	$ —	$ 1,068	$ (2,097)	$ 1,068

(5) 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		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Basic weighted average shares outstanding	366,083	379,368	368,885	382,235
Effect of potentially dilutive securities:				
Stock options	1,541	1,890	1,591	2,016
Restricted stock units	535	1,293	470	1,210
Employee stock purchase plan and other	1	7	1	17
Diluted weighted average shares outstanding	368,160	382,558	370,947	385,478

There were 28 and 58 restricted stock units excluded from the diluted earnings per share calculation because their effect would be anti-dilutive for the quarter and nine months ended September 30, 2017, respectively. For the quarter and nine months

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

ended October 1, 2016, there were 42 restricted stock units excluded from the diluted earnings per share calculation because their effect would be anti-dilutive. For the quarters and nine months ended September 30, 2017 and October 1, 2016, no options were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive.

For the quarters ended September 30, 2017 and October 1, 2016, the Company declared cash dividends of $0.15 and $0.11 per share, respectively. For the nine months ended September 30, 2017 and October 1, 2016, the Company declared cash dividends of $0.45 and $0.33 per share, respectively.

On October 24, 2017, the Company's Board of Directors declared a regular quarterly cash dividend of $0.15 per share on outstanding shares of common stock to be paid on December 5, 2017 to stockholders of record at the close of business on November 14, 2017.

On April 27, 2016, the Company's Board of Directors approved a new share repurchase program for up to 40,000 shares to be repurchased in open market transactions, subject to market conditions, legal requirements and other factors. The Company did not repurchase any shares during the quarters ended September 30, 2017 and October 1, 2016. For the nine months ended September 30, 2017, the Company entered into transactions to repurchase 14,696 shares at a weighted average repurchase price of $20.39 per share. The shares were repurchased at a total cost of $299,919. For the nine months ended October 1, 2016, the Company repurchased 14,243 shares under the previous share repurchase program at a weighted average purchase price of $26.65 per share. The shares were repurchased at a total cost of $379,901. At September 30, 2017, the remaining repurchase authorization totaled 25,304 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.

(6) Inventories

Inventories consisted of the following:

	September 30, 2017	December 31, 2016
Raw materials	$ 130,567	$ 131,228
Work in process	201,729	185,066
Finished goods	1,621,622	1,524,271
	$ 1,953,918	$ 1,840,565

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HANESBRANDS INC.
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(7) Debt
Debt consisted of the following:

	Interest Rate as of September 30, 2017	Principal Amount September 30, 2017	Principal Amount December 31, 2016	Maturity Date
Senior Secured Credit Facility:				
Revolving Loan Facility	2.99%	$211,000	$ —	April 2020
Term Loan A	2.95%	605,625	655,469	April 2020
Term Loan B	3.74%	318,625	318,625	April 2022
Australian Term A-1	3.15%	156,974	143,544	July 2019
Australian Term A-2	—%	—	143,544	July 2021
4.875% Senior Notes	4.88%	900,000	900,000	May 2026
4.625% Senior Notes	4.63%	900,000	900,000	May 2024
3.5% Senior Notes	3.50%	587,268	520,617	June 2024
European Revolving Loan Facility	1.50%	79,868	62,474	September 2018
Accounts Receivable Securitization Facility	2.12%	250,995	44,521	March 2018
Other International Debt	Various	2,027	43,789	Various
		4,012,382	3,732,583	
Less long-term debt issuance cost		40,445	46,534	
Less current maturities		405,390	178,364	
		$3,566,547	$ 3,507,685	

As of September 30, 2017, the Company had $784,117 of borrowing availability under the $1,000,000 Revolving Loan Facility after taking into account outstanding borrowings and $4,883 of standby and trade letters of credit issued and outstanding under this facility. The Company also had $24,005 of borrowing availability under the Accounts Receivable Securitization Facility, $37,586 of borrowing availability under the European Revolving Loan Facility, $51,016 of borrowing availability under the Australian Revolving Loan Facility and $60,648 of borrowing availability under other international lines of credit after taking into account outstanding borrowings and letters of credit outstanding under the applicable facility.

In March 2017, 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 maturity date to March 2018.

In September 2017, the Company amended the European Revolving Loan Facility primarily to extend the maturity date to September 2018.

As of September 30, 2017, the Company was in compliance with all financial covenants under its credit facilities.

(8) 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 December 31, 2016	$ (78,059)	$13,772	$(606,583)	$234,879	$ (435,991)
Amounts reclassified from accumulated other comprehensive loss	—	(3,348)	14,440	(4,611)	6,481
	34,047	(43,660)	—	12,481	2,868

Current-period other comprehensive income (loss) activity					
Balance at September 30, 2017	$ (44,012)	$ (33,236)	$ (592,143)	$ 242,749	$ (426,642)

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The Company had the following reclassifications out of AOCI:

Component of AOCI	Location of Reclassification into Income	Amount of Reclassification from AOCI Quarter Ended September 30, 2017	Amount of Reclassification from AOCI Quarter Ended October 1, 2016	Amount of Reclassification from AOCI Nine Months Ended September 30, 2017	Amount of Reclassification from AOCI Nine Months Ended October 1, 2016
Gain on foreign exchange contracts	Cost of sales	$414	$715	$3,348	$4,424
	Income tax	191	(278)	(934)	(1,721)
	Net of tax	605	437	2,414	2,703
Amortization of deferred actuarial loss and prior service cost	Selling, general and administrative expenses	(4,862)	(4,307)	(14,440)	(12,843)
	Income tax	1,867	1,675	5,545	4,996
	Net of tax	(2,995)	(2,632)	(8,895)	(7,847)
Total reclassifications		$(2,390)	$(2,195)	$(6,481)	$(5,144)

(9) Financial Instruments and Risk Management

The Company uses forward foreign exchange contracts to manage its exposures to movements in foreign exchange rates. As of September 30, 2017, the notional U.S. dollar equivalent of commitments to sell foreign currencies within the Company’s derivative portfolio was $588,866, primarily consisting of contracts hedging exposures to the Australian dollar, Euro, Canadian dollar, Mexican peso, and the New Zealand dollar.

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 September 30, 2017	Fair Value December 31, 2016
Hedges	Other current assets	$907	$ 16,729
Non-hedges	Other current assets	541	4,363
Total derivative assets		1,448	21,092
Hedges	Accrued liabilities	(21,169)	(207)
Non-hedges	Accrued liabilities	(4,503)	(172)
Total derivative liabilities		(25,672)	(379)
Net derivative (liability) asset		$(24,224)	$ 20,713

Cash Flow Hedges

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 loss from AOCI of approximately $16,432.

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.

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The effect of cash flow hedge derivative instruments on the Condensed Consolidated Statements of Income and AOCI is as follows:

	Amount of Loss Recognized in AOCI (Effective Portion) Quarter Ended		Amount of Loss Recognized in AOCI (Effective Portion) Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Foreign exchange contracts	$(17,379)	$(3,594)	$(43,660)	$(7,131)

	Location of Gain Reclassified from AOCI into Income (Effective Portion)	Amount of Gain Reclassified from AOCI into Income (Effective Portion) Quarter Ended		Amount of Gain Reclassified from AOCI into Income (Effective Portion) Nine Months Ended	
		September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Foreign exchange contracts	Cost of sales	$ 414	$ 715	$ 3,348	$ 4,424

Derivative Contracts Not Designated As Hedges

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

The effect of derivative contracts not designated as hedges on the Condensed Consolidated Statements of Income is as follows:

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain Recognized in Income Quarter Ended		Amount of Gain (Loss) Recognized in Income Nine Months Ended	
		September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Foreign exchange contracts	Selling, general and administrative expenses	$3,277	$ 7,694	$(1,398)	$ 7,970

(10) Fair Value of Assets and Liabilities

As of September 30, 2017, 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, deferred compensation plan liabilities and contingent consideration resulting from the Champion Europe acquisition. The fair values of foreign currency derivatives are determined using the cash flows of the foreign 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 fair value of the contingent consideration obligation was determined by applying a multiple of 10 times Champion Europe’s EBITDA for calendar year 2016 in excess of €18,600, as defined per the purchase agreement, as further described in Note 3 to the Company’s condensed consolidated financial statements, and is categorized as Level 3. An initial payment of €37,820 was made on April 28, 2017 to the sellers, which represents the mutually agreed portion of the contingent consideration. The remaining contingent consideration obligation will be revalued each reporting period until the related contingencies are resolved, with any adjustments to the fair value recognized in earnings. The Company’s defined benefit pension plan investments are not required to be measured at fair value on a recurring basis.

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

There were no changes during the quarter ended September 30, 2017 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 September 30, 2017. As of and during the quarter and nine months ended September 30, 2017, 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 September 30, 2017			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign exchange derivative contracts	$1,448	$ —	$1,448	$ —
Foreign exchange derivative contracts	(25,672)	—	(25,672)	—
	(24,224)	—	(24,224)	—
Champion Europe contingent consideration	(3,383)	—	—	(3,383)
Deferred compensation plan liability	(53,237)	—	(53,237)	—
Total	$(80,844)	$ —	$(77,461)	$ (3,383)

	Assets (Liabilities) at Fair Value as of December 31, 2016			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign exchange derivative contracts	$21,092	$ —	$21,092	$ —
Foreign exchange derivative contracts	(379)	—	(379)	—
	20,713	—	20,713	—
Champion Europe contingent consideration	(42,378)	—	—	(42,378)
Deferred compensation plan liability	(51,868)	—	(51,868)	—
Total	$(73,533)	$ —	$(31,155)	$ (42,378)

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 September 30, 2017 and December 31, 2016. The carrying amount of trade accounts receivable included allowance for doubtful accounts, chargebacks and other deductions of $23,998 and $18,726 as of September 30, 2017 and December 31, 2016, respectively. The fair value of debt, which is classified as a Level 2 liability, was $4,206,792 and $3,729,270 as of September 30, 2017 and December 31, 2016, respectively. Debt had a carrying value of $4,012,382 and $3,732,583 as of September 30, 2017 and December 31, 2016, respectively. 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 September 30, 2017 and December 31, 2016, primarily due to the short-term nature of these instruments.

(11) Income Taxes

The Company’s effective income tax rate for continuing operations was 2% and 6% for the quarters ended September 30, 2017 and October 1, 2016, respectively. The Company’s effective income tax rate for continuing operations was 4% and 7% for the nine months ended September 30, 2017 and October 1, 2016, respectively. The lower effective income tax rate for the quarter and nine months ended September 30, 2017 compared to the quarter and nine months ended October 1, 2016 was primarily due to favorable adjustments resulting from the finalization of the prior year federal tax return, resulting in the recognition of previously unrecognized foreign tax credits, recognized discretely in the period ending September 30, 2017.

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Additionally, there was a lower proportion of earnings attributed to domestic subsidiaries, which are taxed at higher rates than foreign subsidiaries, for the nine months ending September 30, 2017 as compared to the nine months ending October 1, 2016.

(12) Business Segment Information

In the first quarter of 2017, the Company realigned its reporting segments to reflect the new model under which the business will be managed and results will be reviewed by the chief executive officer, who is the Company's chief operating decision maker. The former Direct to Consumer segment, which consisted of the Company's U.S. value-based ("outlet") stores, legacy catalog business and U.S. retail Internet operations, was eliminated. The Company's U.S. retail Internet operations, which sells products directly to consumers, is now reported in the respective Innerwear and Activewear segments. Other consists of the Company's U.S. value-based ("outlet") stores, U.S. hosiery business (previously reported in the Innerwear segment) and legacy catalog operations. Prior year segment sales and operating profit results have been revised to conform to the current year presentation.

The Company's operations are managed and reported in three operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear and International. These segments are organized principally by product category and geographic location. 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.

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 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.
- International primarily relates to the Europe, Australia, Asia, Latin America and Canada 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, acquisition-related and integration charges and amortization of intangibles. 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 December 31, 2016.

	Quarter Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net sales:				
Innerwear	$644,059	$679,096	$1,868,255	$1,953,807
Activewear	519,496	516,713	1,226,595	1,207,767
International	556,730	478,122	1,509,370	1,026,871
Other	78,985	87,088	222,015	264,445
Total net sales	$1,799,270	$1,761,019	$4,826,235	$4,452,890

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	Quarter Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Segment operating profit:				
Innerwear	$141,002	$147,902	$407,982	$435,660
Activewear	79,015	72,962	162,053	160,076
International	76,414	61,312	185,216	109,184
Other	10,162	9,199	16,250	27,408
Total segment operating profit	306,593	291,375	771,501	732,328
Items not included in segment operating profit:				
General corporate expenses	(26,136)	(14,776)	(63,354)	(54,798)
Acquisition-related and integration charges	(16,874)	(42,587)	(81,303)	(91,651)
Amortization of intangibles	(10,279)	(5,660)	(23,595)	(13,912)
Total operating profit	253,304	228,352	603,249	571,967
Other expenses	(1,881)	(1,559)	(4,659)	(50,533)
Interest expense, net	(43,917)	(43,433)	(130,184)	(111,539)
Income from continuing operations before income tax expense	$207,506	$183,360	$468,406	$409,895

For the quarter ended September 30, 2017, the Company incurred acquisition-related and integration charges of $16,874, of which $2,230 is reported in the “Cost of sales” line and $14,644 is reported in the “Selling, general and administrative expenses” line in the Condensed Consolidated Statement of Income. For the quarter ended October 1, 2016, the Company incurred acquisition-related and integration charges of $42,587, of which $13,563 is reported in the “Cost of sales” line and $29,024 is reported in the “Selling, general and administrative expenses” line in the Condensed Consolidated Statement of Income.

For the nine months ended September 30, 2017, the Company incurred acquisition-related and integration charges of $81,303, of which $21,989 is reported in the “Cost of sales” line and $59,314 is reported in the “Selling, general and administrative expenses” line. For the nine months ended October 1, 2016, the Company incurred acquisition-related and integration charges of $138,942, of which $27,732 is reported in the “Cost of sales” line, $63,919 is reported in the “Selling, general and administrative expenses” line and $47,291 is reported in the “Other expenses” line in the Condensed Consolidated Statement of Income.

As part of the Hanes Europe Innerwear acquisition strategy, in 2015 the Company identified management and administrative positions that were considered non-essential and/or duplicative that have or will be eliminated. As of December 31, 2016, the Company had accrued approximately $32,542 for expected benefit payments related to employee termination and other benefits for affected employees. During the nine months ended September 30, 2017, there were approximately $9,836 of benefit payments and foreign currency adjustments, resulting in an accrual of $22,706, of which, $10,905 and $11,801, is included in the “Accrued liabilities” and “Other noncurrent liabilities” lines of the Condensed Consolidated Balance Sheet, respectively.

In the first quarter of 2017, the Company approved an action to resize its U.S. corporate office workforce through separation programs affecting employees primarily in the Innerwear and Activewear segments. As of April 1, 2017, the Company accrued approximately $10,145 for employee termination and other benefits in accordance with expected benefit payments, with the majority of charges reflected in the “Selling, general and administrative expenses” line of the Condensed Consolidated Statements of Income. During the nine months ended September 30, 2017, there were approximately $8,477 of benefit payments and an additional accrual of $4,653, resulting in an ending accrual of $6,321 included in the “Accrued liabilities” line of the Condensed Consolidated Balance Sheet.

The Company closed its Nanjing, China textile plant in the first quarter of 2017 as part of a plan to realign its Asia textile production in order to better support its global commercial footprint, which has evolved over the past 10 years through major acquisitions in the United States, Europe and Australia. As of April 1, 2017, the Company accrued approximately $8,534 for employee termination and other benefits in accordance with expected benefit payments for employees. The charges, along with other facility exit costs of $2,831, were reflected in the “Cost of sales” line of the Condensed Consolidated Statements of Income. During the nine months ended September 30, 2017, there were approximately $8,057 of benefit payments and foreign currency adjustments, resulting in an accrual of $477, which is included in the “Accrued liabilities” line of the Condensed Consolidated Balance Sheet. As of September 30, 2017, the Nanjing, China textile plant, valued at $65,570, was classified as assets held for sale and reported within the “Other current assets” line of the Condensed Consolidated Balance Sheet.

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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 December 31, 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 December 31, 2016.

Overview

We are a consumer goods company with a portfolio of leading apparel brands, including Hanes, Champion, DIM, Maidenform, Playtex, Bonds, Bali, JMS/Just My Size, Nur Die/Nur Der, L'eggs, Lovable, Wonderbra, Flexees, Berlei, Lilyette and Gear for Sports. 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 three operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear and International. These segments are organized principally by product category and geographic location. 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. In the first quarter of 2017, we realigned our reporting segments to reflect the new model under which the business will be managed and results will be reviewed by the chief executive officer, who is our chief operating decision maker. The former Direct to Consumer segment, which consisted of our U.S. value-based ("outlet") stores, legacy catalog business and U.S. retail Internet operations, was eliminated. Our U.S. retail Internet operations, which sells products directly to consumers, is now reported in the respective Innerwear and Activewear segments. Other consists of our U.S. value-based ("outlet") stores, U.S. hosiery business (previously reported in the Innerwear segment) and legacy catalog operations. Prior year segment sales and operating profit results have been revised to conform to the current year presentation.

Highlights from the Third Quarter Ended September 30, 2017

Key financial highlights are as follows:

- Total net sales in the third quarter of 2017 were $1.80 billion, compared with $1.76 billion in the same period of 2016, representing a 2% increase.
- Operating profit increased 11% to $253 million in the third quarter of 2017, compared with $228 million in the same period of 2016. As a percentage of sales, operating profit was 14.1% in the third quarter of 2017 compared to 13.0% in the same period of 2016. Included within operating profit for both the third quarter of 2017 and 2016 were acquisition-related and integration charges of $17 million and $43 million, respectively.
- Diluted earnings per share from continuing operations increased 22% to $0.55 in the third quarter of 2017, compared with $0.45 in the same period of 2016.

In 2017, we began executing a multi-year program ("Project Booster") to drive investment for sales growth, cost reduction and increased cash flow. Under Project Booster, we are investing to accelerate worldwide omnichannel and global Champion growth, while also investing in marketing and brand building for our leading lineup of brands globally. To fund growth initiatives, reduce costs and increase cash flow, we expect to reduce overhead, including headcount, to reflect market trends and needs; drive additional supply chain optimization beyond integration synergies; and focus on inventory turns and other working capital improvements. We intend to use our size and scale to drive supply chain optimization, including by investing in our domestic distribution center network to better serve the online channel, gaining procurement and product development savings, utilizing global fabric platforms and silhouettes, and continuing to internalize production.

The Project Booster initiative is expected to generate approximately $150 million in annualized cost savings. We expect to annually reinvest approximately $50 million of the savings in targeted growth opportunities, which would result in approximately $100 million of annual net cost savings and incremental cash from operations by the end of 2019. In addition to the annual net cost savings, we also plan to drive approximately $200 million of non-recurring working capital improvements which will result in a one-time benefit to cash from operations by the end of 2019.

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Outlook

We expect our 2017 full year net sales to be approximately $6.450 billion to $6.475 billion.

Interest and other expenses are expected to be approximately $180 million, combined.

We estimate our full year effective income tax rate to be approximately 5%, assuming no changes to U.S. tax law and policy.

We expect cash flow from operations to be in the range of $625 million to $725 million. We expect capital expenditures of approximately $90 million.

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.

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Condensed Consolidated Results of Operations — Third Quarter Ended September 30, 2017 Compared with Third Quarter Ended October 1, 2016

	Quarter Ended			
	September 30, 2017	October 1, 2016	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$1,799,270	$1,761,019	$38,251	2.2 %
Cost of sales	1,120,813	1,111,653	9,160	0.8
Gross profit	678,457	649,366	29,091	4.5
Selling, general and administrative expenses	425,153	421,014	4,139	1.0
Operating profit	253,304	228,352	24,952	10.9
Other expenses	1,881	1,559	322	20.7
Interest expense, net	43,917	43,433	484	1.1
Income from continuing operations before income tax expense	207,506	183,360	24,146	13.2
Income tax expense	4,150	10,570	(6,420)	(60.7)
Income from continuing operations	203,356	172,790	30,566	17.7
Income from discontinued operations, net of tax	—	1,068	(1,068)	NM
Net income	$203,356	$173,858	$29,498	17.0 %

Net Sales

Net sales increased 2% during the third quarter of 2017 primarily due to the following:

- Acquisition of It’s Greek to Me and GTM Retail, Inc. (“GTM”) in 2016, which added incremental net sales of approximately $15 million in the third quarter of 2017;