Hanesbrands Inc.
Form 10-Q
July 28, 2011

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

FORM 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended July 2, 2011
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission file number: 001-32891

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

Maryland	**20-3552316**
(State of incorporation)	*(I.R.S. employer identification no.)*
1000 East Hanes Mill Road	**27105**
Winston-Salem, North Carolina	*(Zip code)*
(Address of principal executive office)	

(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 þ No o

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o

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

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

As of July 22, 2011, there were 97,138,361 shares of the registrant s common stock outstanding.

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Trademarks, Trade Names and Service Marks

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that may appear in this Quarterly Report on Form 10-Q include the *Hanes, Champion, C9 by Champion, Playtex, Bali, L eggs, Just My Size, barely there*, *Wonderbra*, *Stedman, Outer Banks, Zorba, Rinbros, Duofold* and *Gear for Sports* marks, which may be registered in the United States and other jurisdictions. We do not own any trademark, trade name or service mark of any other company appearing in this Quarterly Report on Form 10-Q.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as may, believe, will, expect, project, estimate, intend, anticipate, plan, continue or similar e particular, statements under the headings Outlook for 2011 and Business and Industry Trends 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 and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the year ended January 1, 2011, particularly under the caption Risk Factors.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended January 1, 2011, particularly under the caption Risk Factors. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can inspect, read and copy these reports, proxy statements and other information at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information regarding the operation of the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at *www.sec.gov* that makes available reports, proxy statements and other information regarding issuers that file electronically.

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

PART I

Item 1. ***Financial Statements***

HANESBRANDS INC.

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

	Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net sales	$ 1,225,233	$ 1,075,852	$ 2,261,643	$ 2,003,692
Cost of sales	797,993	701,046	1,479,878	1,301,456
Gross profit	427,240	374,806	781,765	702,236
Selling, general and administrative expenses	278,772	252,001	531,454	493,719
Operating profit	148,468	122,805	250,311	208,517
Other expenses	814	2,628	1,415	4,034
Interest expense, net	39,178	36,573	80,283	74,068
Income before income tax expense (benefit)	108,476	83,604	168,613	130,415
Income tax expense (benefit)	21,694	(1,808)	33,722	8,490
Net income	$ 86,782	$ 85,412	$ 134,891	$ 121,925
Earnings per share:				
Basic	$ 0.89	$ 0.89	$ 1.39	$ 1.27
Diluted	$ 0.87	$ 0.87	$ 1.36	$ 1.25
Weighted average shares outstanding:				
Basic	97,537	96,420	97,366	96,376
Diluted	99,224	98,027	98,927	97,781

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)

	July 2, 2011	January 1, 2011
Assets		
Cash and cash equivalents	$ 44,655	$ 43,671
Trade accounts receivable less allowances of $17,243 at July 2, 2011 and $19,192 at January 1, 2011	612,178	503,243
Inventories	1,640,231	1,322,719
Deferred tax assets	147,360	149,431
Other current assets	57,305	128,607
Total current assets	2,501,729	2,147,671
Property, net	635,612	631,254
Trademarks and other identifiable intangibles, net	176,531	178,622
Goodwill	432,903	430,144
Deferred tax assets and other noncurrent assets	408,001	402,311
Total assets	$ 4,154,776	$ 3,790,002
Liabilities and Stockholders Equity		
Accounts payable	$ 563,641	$ 412,369
Accrued liabilities	267,341	276,303
Notes payable	29,011	50,678
Current portion of debt	213,055	90,000
Total current liabilities	1,073,048	829,350
Long-term debt	1,998,235	1,990,735
Other noncurrent liabilities	425,693	407,243
Total liabilities	3,496,976	3,227,328
Stockholders equity:		
Preferred stock (50,000,000 authorized shares; $.01 par value)		
Issued and outstanding None		
Common stock (500,000,000 authorized shares; $.01 par value)		
Issued and outstanding 96,740,315 at July 2, 2011 and 96,207,025 at January 1, 2011	967	962
Additional paid-in capital	245,712	294,829
Retained earnings	614,988	480,098
Accumulated other comprehensive loss	(203,867)	(213,215)

Total stockholders equity	657,800	562,674
Total liabilities and stockholders equity	$ 4,154,776	$ 3,790,002

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

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

	Six Months Ended July 2, 2011	Six Months Ended July 3, 2010
Operating activities:		
Net income	$ 134,891	$ 121,925
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	36,899	36,601
Amortization of intangibles	7,236	6,128
Write-off on early extinguishment of debt		2,340
Amortization of debt issuance costs	5,227	6,482
Amortization of loss on interest rate hedge	6,465	9,542
Stock compensation expense	3,237	5,818
Deferred taxes and other	3,442	(7,649)
Changes in assets and liabilities:		
Accounts receivable	(105,117)	(63,694)
Inventories	(307,433)	(249,419)
Other assets	2,876	14,161
Accounts payable	149,673	108,013
Accrued liabilities and other	(5,649)	(54,520)
Net cash used in operating activities	(68,253)	(64,272)
Investing activities:		
Purchases of property, plant and equipment	(47,740)	(58,099)
Acquisition of business	(9,154)	
Proceeds from sales of assets	12,200	45,196
Other		(519)
Net cash used in investing activities	(44,694)	(13,422)
Financing activities:		
Borrowings on notes payable	265,012	631,745
Repayments on notes payable	(287,103)	(665,991)
Borrowings on Accounts Receivable Securitization Facility	189,727	149,406
Repayments on Accounts Receivable Securitization Facility	(66,672)	(116,891)
Borrowings on Revolving Loan Facility	1,840,000	1,075,000
Repayments on Revolving Loan Facility	(1,832,500)	(939,500)
Payments to amend credit facilities	(3,757)	
Proceeds from stock options exercised	8,062	1,420
Repayment of debt under 2009 Senior Secured Credit Facility		(59,063)
Other	432	121

Net cash provided by financing activities		113,201		76,247
Effect of changes in foreign exchange rates on cash		730		(699)
Increase (decrease) in cash and cash equivalents		984		(2,146)
Cash and cash equivalents at beginning of year		43,671		38,943
Cash and cash equivalents at end of period	$	44,655	$	36,797

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

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

(1) Basis of Presentation

These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Management believes that the disclosures made are adequate for a fair statement of the results of operations, financial condition and cash flows of Hanesbrands Inc., a Maryland corporation, and its consolidated subsidiaries (the Company or Hanesbrands). In the opinion of management, the condensed consolidated interim financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations, financial condition and cash flows for the interim periods presented herein. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates.

These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s most recent Annual Report on Form 10-K. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

(2) Recent Accounting Pronouncements

Fair Value Disclosures

In January 2010, the Financial Accounting Standards Board (the FASB) issued new accounting rules related to the disclosure requirements for fair value measurements. The new accounting rules require new disclosures regarding significant transfers between Levels 1 and 2 of the fair value hierarchy and the activity within Level 3 of the fair value hierarchy. The new accounting rules also clarify existing disclosures regarding the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The new accounting rules were effective for the Company in the first quarter of 2010, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for the Company in the first quarter of 2011. The adoption of these new rules did not have a material impact on the Company s financial condition, results of operations or cash flows but resulted in certain additional disclosures reflected in Note 8.

Fair Value Measurements

In May 2011, the FASB issued new accounting rules related to fair value measurements. The new accounting rules clarify some existing concepts, eliminate wording differences between GAAP and International Financial Reporting Standards (IFRS), and in some limited cases, change some principles to achieve convergence between GAAP and IFRS. The new accounting rules result in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. The new accounting rules also expand the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The new accounting rules will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of the new accounting rules to have a material effect on the Company s financial condition, results of operations or cash flows.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
(dollars and shares in thousands, except per share data)
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Presentation of Comprehensive Income

In June 2011, the FASB issued new accounting rules which require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. The new accounting rules eliminate the option to present components of other comprehensive income as part of the statement of equity. The new accounting rules will be effective for the Company beginning after December 15, 2011. The Company does not expect the adoption of the new accounting rules to have a material effect on the Company s financial condition, results of operations or cash flows.

(3) Earnings Per Share

Basic earnings per share (EPS) was computed by dividing net income by the number of weighted average shares of common stock outstanding during the quarters and six months ended July 2, 2011 and July 3, 2010. 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 for the quarters and six months ended July 2, 2011 and July 3, 2010 is as follows:

	Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Basic weighted average shares outstanding	97,537	96,420	97,366	96,376
Effect of potentially dilutive securities:				
Stock options	1,378	1,062	1,217	842
Restricted stock units	307	542	343	561
Employee stock purchase plan and other	2	3	1	2
Diluted weighted average shares outstanding	99,224	98,027	98,927	97,781

For the quarters ended July 2, 2011 and July 3, 2010, options to purchase 6 and 606 shares of common stock, respectively, were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive. For the six months ended July 2, 2011 and July 3, 2010, options to purchase 193 and 606 shares of common stock, respectively, were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
(dollars and shares in thousands, except per share data)
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(4) Trade Accounts Receivable

Allowances for Trade Accounts Receivable

The changes in the Company s allowance for doubtful accounts and allowance for chargebacks and other deductions for the quarter and six months ended July 2, 2011 are as follows:

	Allowance for Doubtful Accounts	Allowance for Chargebacks and Other Deductions	Total
Balance at January 1, 2011	$ 11,116	$ 8,076	$ 19,192
Charged to expenses	(1,419)	1,538	119
Deductions and write-offs	(220)	(1,609)	(1,829)
Balance at April 2, 2011	9,477	8,005	17,482
Charged to expenses	(171)	1,467	1,296
Deductions and write-offs	(26)	(1,509)	(1,535)
Balance at July 2, 2011	$ 9,280	$ 7,963	$ 17,243

Charges to the allowance for doubtful accounts are reflected in the Selling, general and administrative expenses line and charges to the allowance for customer chargebacks and other customer deductions are primarily reflected as a reduction in the Net sales line of the Condensed Consolidated Statements of Income. Deductions and write-offs, which do not increase or decrease income, represent write-offs of previously reserved accounts receivable and allowed customer chargebacks and deductions against gross accounts receivable.

Sales of Accounts Receivable

The Company has entered into agreements to sell selected trade accounts receivable to financial institutions. After the sale, the Company does not retain any interests in the receivables and the applicable financial institution services and collects these accounts receivable directly from the customer. Net proceeds of these accounts receivable sale programs are recognized in the Condensed Consolidated Statements of Cash Flows as part of operating cash flows. The Company recognized funding fees of $814 and $1,415 during the quarter and six months ended July 2, 2011 and $974 and $1,463 during the quarter and six months ended July 3, 2010, respectively, for sales of accounts receivable to financial institutions in the Other expenses line in the Condensed Consolidated Statements of Income.

(5) Inventories

Inventories consisted of the following:

	July 2, 2011	January 1, 2011
Raw materials	$ 196,804	$ 155,744
Work in process	138,205	109,304
Finished goods	1,305,222	1,057,671
	$ 1,640,231	$ 1,322,719

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HANESBRANDS INC.

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

The Company had the following debt at July 2, 2011 and January 1, 2011:

	Interest Rate as of July 2, 2011	Principal Amount July 2, 2011	Principal Amount January 1, 2011	Maturity Date
Revolving Loan Facility	5.50%	$ 7,500	$	December 2015
6.375% Senior Notes	6.38%	1,000,000	1,000,000	December 2020
8% Senior Notes	8.00%	500,000	500,000	December 2016
Floating Rate Senior Notes	3.77%	490,735	490,735	December 2014
Accounts Receivable Securitization Facility	1.41%	213,055	90,000	March 2012
		2,211,290	2,080,735	
Less current maturities		213,055	90,000	
		$ 1,998,235	$ 1,990,735	

As of July 2, 2011, the Company had $7,500 outstanding under the $600,000 revolving credit facility (the Revolving Loan Facility) under the senior secured credit facility that it entered into in 2006 and amended and restated in December 2009 (as amended and restated, the 2009 Senior Secured Credit Facility), $15,605 of standby and trade letters of credit issued and outstanding under this facility and $576,895 of borrowing availability.

In February 2011, the Company amended the 2009 Senior Secured Credit Facility, which includes the Revolving Loan Facility, to reflect improved debt ratings. This amendment reduced the interest rate, extended the maturity date by two years to December 10, 2015, and increased the flexibility of debt covenants and the use of excess cash flow. In addition, the commitment fee for the unused portion of revolving loan commitments was reduced from 75 basis points to 50 basis points. Further, the applicable margin pricing grid for the loans, which varies based on the Company s Leverage Ratio (as defined below), was reduced by 125 basis points at each applicable Leverage Ratio level.

Pursuant to this amendment, the ratio of total debt to EBITDA (the Leverage Ratio) that the Company may not exceed was increased from 4.00 to 1 for each fiscal quarter ending between October 16, 2010 and April 15, 2011 to 4.50 to 1, and will decline over time to 3.75 to 1. Also, the minimum ratio of EBITDA to consolidated total interest expense (the Interest Coverage Ratio) that the Company is required to maintain was decreased from 3.25 to 1 for each fiscal quarter ending between July 16, 2011 and October 15, 2012 to 3.00 to 1 and will increase over time to 3.25 to 1. In addition, the Company will be required to maintain a maximum ratio of senior secured indebtedness to EBITDA (the Senior Secured Leverage Ratio), which for each fiscal quarter ending between October 16, 2010 and October 15, 2012 cannot exceed 2.50 to 1, and will decline over time to 2.00 to 1. The methods of calculating all of the components used in these ratios are included in the 2009 Senior Secured Credit Facility. This amendment also significantly increased the flexibility of the indebtedness, investment and restricted payments baskets and use of excess cash flow under the 2009 Senior Secured Credit Facility. The Company incurred $3,089 in debt amendment fees in connection with the amendment, which will be amortized over the term of the 2009 Senior Secured Credit Facility.

In January 2011, the Company amended the accounts receivable securitization facility that it entered into in November 2007 (the Accounts Receivable Securitization Facility) to provide for two of the subsidiaries acquired by the Company in the Gear for Sports acquisition, in addition to the Company, to sell, on a revolving basis, certain domestic trade receivables pursuant to this facility. Prior to this amendment, the Accounts Receivable Securitization Facility contained the same financial ratio provisions as those contained in the 2009 Senior Secured Credit Facility. Pursuant to this amendment, the Company is required to maintain the financial ratios and other financial covenants contained from time to time in the 2009 Senior Secured Credit

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
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Facility, provided that any changes to such covenants after the date of this amendment will only be applicable for purposes of the Accounts Receivable Securitization Facility if approved by the managing agents under the Accounts Receivable Securitization Facility or their affiliates. This amendment also provided for certain other amendments to the Accounts Receivable Securitization Facility, including extending the termination date to March 31, 2011. In connection with this amendment, certain fees were due to the managing agents and certain fees payable to the committed purchasers and the conduit purchasers were decreased.

The Company also amended the Accounts Receivable Securitization Facility in March 2011. In order to take greater advantage of favorable interest rates, the amount of funding available under the Accounts Receivable Securitization Facility, which was initially $250,000 and which the Company reduced to $150,000 effective February 2010, was increased to $225,000. This amendment also provided for certain other amendments to the Accounts Receivable Securitization Facility, including extending the termination date to March 16, 2012. In addition, certain of the factors that contribute to the overall availability of funding were modified in a manner that, taken together, could result in an increase in the amount of funding that will be available under the facility. The Company incurred $668 in debt amendment fees in connection with the amendment, which will be amortized over the term of the Accounts Receivable Securitization Facility.

As of July 2, 2011, the Company was in compliance with all financial covenants under its credit facilities.

(7) Financial Instruments and Risk Management

The Company uses financial instruments to manage its exposures to movements in interest rates, foreign exchange rates and commodity prices. The use of these financial instruments modifies the Company s exposure to these risks with the goal of reducing the risk or cost to the Company. The Company does not use derivatives for trading purposes and is not a party to leveraged derivative contracts.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets. The fair value is based upon either market quotes for actively traded instruments or independent bids for nonexchange traded instruments. The Company formally documents its hedge relationships, including identifying the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivatives that are designated as hedges of specific assets, liabilities, firm commitments or forecasted transactions to the hedged risk. On the date the derivative is entered into, the Company designates the derivative as a fair value hedge, cash flow hedge, net investment hedge or a mark to market hedge, and accounts for the derivative in accordance with its designation. The Company also formally assesses, both at inception and at least quarterly thereafter, whether the derivatives are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer likely to occur, the Company discontinues hedge accounting, and any deferred gains or losses are recorded in the respective measurement period. The Company currently does not have any fair value or net investment hedge instruments.

The Company may be exposed to credit losses in the event of nonperformance by individual counterparties or the entire group of counterparties to the Company s derivative contracts. Risk of nonperformance by counterparties is mitigated by dealing with highly rated counterparties and by diversifying across counterparties.

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HANESBRANDS INC.

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

Mark to Market Hedges

A derivative used as a hedging instrument whose change in fair value is recognized to act as an economic hedge against changes in the values of the hedged item is designated a mark to market hedge.

Mark to Market Hedges Intercompany Foreign Exchange Transactions

The Company uses foreign exchange derivative contracts to reduce the impact of foreign exchange fluctuations on anticipated intercompany purchase and lending transactions denominated in foreign currencies. Foreign exchange derivative contracts are recorded as mark to market hedges when the hedged item is a recorded asset or liability that is revalued in each accounting period. Mark to market hedge derivatives relating to intercompany foreign exchange contracts are reported in the Condensed Consolidated Statements of Cash Flows as cash flow from operating activities. As of July 2, 2011, the U.S. dollar equivalent of commitments to purchase and sell foreign currencies in the Company s foreign currency mark to market hedge derivative portfolio was $10,287 and $54,468, respectively, using the exchange rate at the reporting date.

Cash Flow Hedges

A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is designated as a cash flow hedge. The effective portion of the change in the fair value of a derivative that is designated as a cash flow hedge is recorded in the Accumulated other comprehensive loss line of the Condensed Consolidated Balance Sheets. When the impact of the hedged item is recognized in the income statement, the gain or loss included in Accumulated other comprehensive loss is reported on the same line in the Condensed Consolidated Statements of Income as the hedged item.

Cash Flow Hedges Interest Rate Derivatives

From time to time, the Company uses interest rate cash flow hedges in the form of swaps and caps in order to mitigate the Company s exposure to variability in cash flows for the future interest payments on a designated portion of floating rate debt. The effective portion of interest rate hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying debt interest payments are recognized. Interest rate cash flow hedge derivatives are reported as a component of interest expense and therefore are reported as cash flow from operating activities similar to the manner in which cash interest payments are reported in the Condensed Consolidated Statements of Cash Flows.

The Company is required under the 2009 Senior Secured Credit Facility to hedge a portion of its floating rate debt to reduce interest rate risk caused by floating rate debt issuance. To comply with this requirement, in 2010, the Company entered into hedging arrangements whereby it capped the LIBOR interest rate component on an aggregate of $490,735 of the floating rate debt under the Floating Rate Senior Notes at 4.262%. The interest rate cap arrangements, with notional amounts of $240,735 and $250,000, expire in December 2011.

Cash Flow Hedges Foreign Currency Derivatives

The Company uses forward exchange and option 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 effective portion of foreign exchange hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying inventory is sold, using historical inventory turnover rates. The settlement of foreign exchange hedge derivative contracts

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
(dollars and shares in thousands, except per share data)
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related to the purchase of inventory or other hedged items are reported in the Condensed Consolidated Statements of Cash Flows as cash flow from operating activities.

Historically, the principal currencies hedged by the Company include the Euro, Mexican peso, Canadian dollar and Japanese yen. Forward exchange contracts mature on the anticipated cash requirement date of the hedged transaction, generally within one year. As of July 2, 2011, the U.S. dollar equivalent of commitments to sell foreign currencies in the Company s foreign currency cash flow hedge derivative portfolio was $60,334, using the exchange rate at the reporting date.

Cash Flow Hedges Commodity Derivatives

Cotton is the primary raw material used to manufacture many of the Company s products and is purchased at market prices. The Company is able to lock in the cost of cotton reflected in the price it pays for yarn from its primary yarn suppliers in an attempt to protect its business from the volatility of the market price of cotton. In addition, from time to time, the Company uses commodity financial instruments to hedge the price of cotton, for which there is a high correlation between the hedged item and the hedge instrument. Gains and losses on these contracts are intended to offset losses and gains on the hedged transactions in an effort to reduce the earnings volatility resulting from fluctuating commodity prices. There were no amounts outstanding under cotton futures or cotton option contracts at July 2, 2011 and January 1, 2011.

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:

		Fair Value	
	Balance Sheet Location	**July 2, 2011**	**January 1, 2011**
Derivative assets hedges			
Interest rate contracts	Other current assets	$	$ 3
Foreign exchange contracts	Other current assets	3	408
Total derivative assets hedges		3	411
Derivative assets non-hedges			
Foreign exchange contracts	Other current assets	90	
Total derivative assets		$ 93	$ 411
Derivative liabilities hedges			
Foreign exchange contracts	Accrued liabilities	(1,904)	(874)

Total derivative liabilities hedges		(1,904)	(874)
Derivative liabilities non-hedges			
Foreign exchange contracts	Accrued liabilities	(1,402)	(471)
Total derivative liabilities		$ (3,306)	$ (1,345)
Net derivative liability		$ (3,213)	$ (934)

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Notes to Condensed Consolidated Financial Statements (Continued)
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Net Derivative Gain or Loss

The effect of cash flow hedge derivative instruments is as follows:

	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss (Effective Portion) Quarter Ended		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) Quarter Ended	
	July 2, 2011	July 3, 2010		July 2, 2011	July 3, 2010
Interest rate contracts	$	$ (247)	Interest expense, net	$ (3,248)	$ (4,765)
Foreign exchange contracts	(1,867)	1,222	Cost of sales	(1,017)	153
Total	$ (1,867)	$ 975		$ (4,265)	$ (4,612)

	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss (Effective Portion) Six Months Ended		Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) Six Months Ended	
	July 2, 2011	July 3, 2010		July 2, 2011	July 3, 2010
Interest rate contracts	$ (3)	$ (417)	Interest expense, net	$ (6,637)	$ (9,622)
Foreign exchange contracts	(3,263)	291	Cost of sales	(917)	(624)
Total	$ (3,266)	$ (126)		$ (7,554)	$ (10,246)

The Company expects to reclassify into earnings during the next 12 months a net loss from Accumulated other comprehensive loss of approximately $4,687. The amounts deferred in Accumulated other comprehensive loss associated with a Floating Rate Senior Notes interest rate hedge that was terminated at the time the Company entered into the 2009 Senior Secured Credit Facility were frozen at the termination date and will be amortized over the original remaining term of the interest rate hedge instrument. The unamortized balance in Accumulated other comprehensive loss was $10,578 as of July 2, 2011.

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 Selling, general and administrative expenses in the Condensed Consolidated Statements of Income. The Company recognized losses for the quarter and six months ended July 2, 2011 related to ineffectiveness of hedging relationships for foreign exchange contracts of $61 and $63, respectively. The Company recognized gains (losses) for the quarter and six months ended July 3, 2010 related to ineffectiveness of hedging relationships for foreign exchange contracts of $(2) and $7, respectively.

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The effect of mark to market hedge derivative instruments on the Condensed Consolidated Statements of Income is as follows:

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income Quarter Ended July 2, 2011	Amount of Gain (Loss) Recognized in Income Quarter Ended July 3, 2010	Amount of Gain (Loss) Recognized in Income Six Months Ended July 2, 2011	Amount of Gain (Loss) Recognized in Income Six Months Ended July 3, 2010
Foreign exchange contracts	Selling, general and administrative expenses	$ (1,414)	$ 2,573	$ (3,086)	$ 529
Total		$ (1,414)	$ 2,573	$ (3,086)	$ 529

(8) Fair Value of Assets and Liabilities

Fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability. A three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, is utilized for disclosing the fair value of the Company s assets and liabilities. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of July 2, 2011, 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 interest rates and foreign exchange rates. The Company s defined benefit pension plan investments are not required to be measured at fair value on a recurring basis. The fair values of interest rate derivatives are determined with pricing models using LIBOR interest rate curves, spreads, volatilities and other relevant information developed using market data and are categorized as Level 2. 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.

There were no changes during the quarter ended July 2, 2011 to the Company s valuation techniques used to measure asset and liability fair values on a recurring basis. There were no transfers between the three level categories and there were no Level 3 assets or liabilities measured on a quarterly basis during the quarter ended July 2, 2011. As of and during the quarter and six months ended July 2, 2011, 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.

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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 July 2, 2011		
	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	$	$ 93	$
Foreign exchange derivative contracts		(3,306)	
Total	$	$ (3,213)	$

	Assets (Liabilities) at Fair Value as of January 1, 2011		
	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	$	$ 408	$
Foreign exchange derivative contracts		(1,345)	
Interest rate derivative contracts		3	
Total	$	$ (934)	$

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 July 2, 2011 and January 1, 2011. The fair value of debt was $2,256,482 and $2,060,828 as of July 2, 2011 and January 1, 2011 and had a carrying value of $2,211,290 and $2,080,735, 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 approximated fair value as of July 2, 2011 and January 1, 2011, primarily due to the short-term nature of these instruments.

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
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(9) Comprehensive Income

The Company s comprehensive income is as follows:

	Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net income	$ 86,782	$ 85,412	$ 134,891	$ 121,925
Translation adjustments	2,908	(6,831)	6,771	(6,320)
Amortization of loss on interest rate hedge, net of tax of $1,261, $1,880, $2,578 and $3,804, respectively	1,902	2,837	3,887	5,737
Net unrealized gain (loss) on qualifying cash flow hedges, net of tax of $(306), $347, $(868) and $231, respectively	(459)	523	(1,309)	348
Amounts amortized into net periodic cost:				
Prior service cost, net of tax of $3, $3, $6 and $6, respectively	4	4	8	8
Actuarial loss, net of tax of $908, $860, $1,816 and $1,720, respectively	1,370	1,297	2,740	2,594
Comprehensive income	$ 92,507	$ 83,242	$ 146,988	$ 124,292

(10) Income Taxes

The Company s effective income tax rate was 20% for the quarter and six months ended July 2, 2011, and (2)% and 7% for the quarter and six months ended July 3, 2010, respectively. The higher effective income tax rate for the quarter and six months ended July 2, 2011 compared to the quarter and six months ended July 3, 2010 was primarily attributable to a one-time income tax benefit of approximately $17,000 and $20,000 for the quarter and six months ended July 3, 2010, respectively, resulting from the finalization of tax reviews and audits for amounts that were less than originally anticipated.

As previously disclosed, the Company and Sara Lee Corporation (Sara Lee) have disagreed as to the amount of deferred taxes that should have been attributable to the Company s United States and Canadian operations on the Company s opening balance sheet as of September 6, 2006 following its spin-off from Sara Lee. The computation of this amount is governed by a tax sharing agreement entered into in connection with the spin off. The Company and Sara Lee have had differing interpretations of the tax sharing agreement, and, in accordance with the dispute resolution provisions of the agreement, the Company and Sara Lee submitted that dispute to arbitration before a three-member tribunal in August 2009. A hearing was held in August 2010. Based on the Company s computation of the final amount of deferred taxes for the Company s opening balance sheet as of September 6, 2006, the amount that the Company expected to collect from Sara Lee based on the Company s computation of $72,223, which reflects a preliminary cash installment received from Sara Lee of $18,000, was included as a receivable in Other current assets.

On July 1, 2011, the tribunal issued a 2-1 decision in which the majority disagreed with the Company s interpretation of the tax sharing agreement and awarded the Company $3,291, plus interest based on the majority s interpretation of the tax sharing agreement. This amount reflects other payments made or acknowledged to be owed by the parties under the tax sharing agreement. As a result of the tribunal s decision, the Company recorded a non-cash transaction that reduced Other current assets and Additional paid-in capital by $68,523.

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
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Under section 2.12 of the tax sharing agreement with Sara Lee discussed above, in 2010, the Company recorded a liability of approximately $15,000 to Sara Lee for amounts related to income generated prior to the spin off from Sara Lee which were repatriated in periods since the spin off. The liability is included in Accounts payable in the Condensed Consolidated Balance Sheets as of July 2, 2011 and January 1, 2011 with the resulting offset recorded as a reduction to Additional paid-in capital. Except for the amounts reflected in this Note 10, to the best of the Company s knowledge, there are no other amounts owed to or from Sara Lee under the tax sharing agreement.

(11) Business Segment Information

The Company s operations are managed and reported in five operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Hosiery, 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.

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 women s intimate apparel, men s underwear, kids underwear and socks.

Outerwear sells basic branded products that are primarily seasonal in nature under the product categories of casualwear and activewear, as well as licensed logo apparel in collegiate bookstores and other channels.

Hosiery sells products in categories such as pantyhose, knee highs and tights.

Direct to Consumer includes the Company s value-based (outlet) stores and Internet operations which sell products from the Company s portfolio of leading brands. The Company s Internet operations are supported by its catalogs.

International primarily relates to the Latin America, Asia, Canada, Europe and Australia geographic locations which sell products that span across the Innerwear, Outerwear and Hosiery 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 trademarks and other identifiable 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 January 1, 2011. Certain prior year segment operating profit disclosures have been revised to conform to the current year presentation. These changes were primarily the result of the Company s decision to cease allocating certain compensation related expenses to the segments.

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Notes to Condensed Consolidated Financial Statements (Continued)
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	Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net sales:				
Innerwear	$ 604,678	$ 559,250	$ 1,056,014	$ 1,010,067
Outerwear	331,413	263,331	662,084	505,179
Hosiery	33,968	31,923	78,570	79,831
Direct to Consumer	97,456	93,861	180,254	178,353
International	157,718	127,487	284,721	230,262
Total net sales	$ 1,225,233	$ 1,075,852	$ 2,261,643	$ 2,003,692

	Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Segment operating profit:				
Innerwear	$ 92,552	$ 93,150	$ 151,968	$ 170,647
Outerwear	35,918	17,185	61,423	22,685
Hosiery	9,403	8,580	25,673	28,001
Direct to Consumer	9,396	7,294	9,762	8,329
International	17,612	14,871	37,775	25,714
Total segment operating profit	164,881	141,080	286,601	255,376
Items not included in segment operating profit:				
General corporate expenses	(12,796)	(15,273)	(29,054)	(40,731)
Amortization of trademarks and other identifiable intangibles	(3,617)	(3,002)	(7,236)	(6,128)
Total operating profit	148,468	122,805	250,311	208,517
Other expenses	(814)	(2,628)	(1,415)	(4,034)
Interest expense, net	(39,178)	(36,573)	(80,283)	(74,068)
Income before income tax expense (benefit)	$ 108,476	$ 83,604	$ 168,613	$ 130,415

	Quarter Ended		Six Months Ended	
	July 2,	July 3,	July 2,	July 3,

	2011	2010	2011	2010
Depreciation and amortization expense:				
Innerwear	$ 9,559	$ 8,367	$ 18,993	$ 17,216
Outerwear	5,819	4,669	10,993	9,689
Hosiery	386	733	866	1,528
Direct to Consumer	1,786	1,445	3,486	2,770
International	558	593	1,061	1,155
	18,108	15,807	35,399	32,358
Corporate	4,340	4,086	8,736	10,371
Total depreciation and amortization expense	$ 22,448	$ 19,893	$ 44,135	$ 42,729

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Notes to Condensed Consolidated Financial Statements (Continued)
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	Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Additions to long-lived assets:				
Innerwear	$ 8,721	$ 14,269	$ 19,695	$ 27,140
Outerwear	8,526	9,368	18,669	19,650
Hosiery	190	196	290	302
Direct to Consumer	2,332	3,661	5,009	7,353
International	982	539	1,608	1,259
	20,751	28,033	45,271	55,704
Corporate	1,578	1,842	2,469	2,395
Total additions to long-lived assets	$ 22,329	$ 29,875	$ 47,740	$ 58,099

(12) Consolidating Financial Information

In accordance with the indenture governing the Company s $500,000 Floating Rate Senior Notes issued on December 14, 2006, the indenture governing the Company s $500,000 8% Senior Notes issued on December 10, 2009 and the indenture governing the Company s $1,000,000 6.375% Senior Notes issued on November 9, 2010 (together, the Indentures), certain of the Company s subsidiaries have guaranteed the Company s obligations under the Floating Rate Senior Notes, the 8% Senior Notes and the 6.375% Senior Notes, respectively. 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 our subsidiaries and (d) record consolidating entries; and

(v) Parent Company, on a consolidated basis.

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
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The Floating Rate Senior Notes, the 8% Senior Notes and the 6.375% Senior Notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary, each of which is wholly owned, directly or indirectly, by Hanesbrands Inc. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation.

Condensed Consolidating Statement of Income
Quarter Ended July 2, 2011

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$ 1,069,718	$ 170,086	$ 953,244	$ (967,815)	$ 1,225,233
Cost of sales	796,141	78,406	852,517	(929,071)	797,993
Gross profit	273,577	91,680	100,727	(38,744)	427,240
Selling, general and administrative expenses	211,883	32,527	35,214	(852)	278,772
Operating profit (loss)	61,694	59,153	65,513	(37,892)	148,468
Equity in earnings (loss) of subsidiaries	71,642	26,510		(98,152)	
Other expenses	814				814
Interest expense, net	36,326	(12)	2,852	12	39,178
Income (loss) before income tax expense	96,196	85,675	62,661	(136,056)	108,476
Income tax expense	9,414	8,010	4,270		21,694
Net income (loss)	$ 86,782	$ 77,665	$ 58,391	$ (136,056)	$ 86,782

Condensed Consolidating Statement of Income
Quarter Ended July 3, 2010

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$ 1,031,427	$ 109,142	$ 803,854	$ (868,571)	$ 1,075,852
Cost of sales	823,410	39,051	708,818	(870,233)	701,046

Gross profit	208,017	70,091	95,036	1,662	374,806
Selling, general and administrative expenses	201,078	22,514	28,014	395	252,001
Operating profit	6,939	47,577	67,022	1,267	122,805
Equity in earnings (loss) of subsidiaries	102,586	47,219			