

Hanesbrands Inc.  
Form 10-Q  
November 03, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended October 1, 2011

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**

*(State of incorporation)*

**1000 East Hanes Mill Road**

**Winston-Salem, North Carolina**

*(Address of principal executive office)*

**20-3552316**

*(I.R.S. employer identification no.)*

**27105**

*(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  No

## Edgar Filing: Hanesbrands Inc. - Form 10-Q

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  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of October 28, 2011, there were 97,170,548 shares of the registrant's common stock outstanding.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<u>Forward-Looking Statements</u>	1
<u>Where You Can Find More Information</u>	1
<b><u>PART I</u></b>	
<u>Item 1.</u>	
<u>Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Statements of Income for the quarters and nine months ended October 1, 2011 and October 2, 2010</u>	2
<u>Condensed Consolidated Balance Sheets at October 1, 2011 and January 1, 2011</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended October 1, 2011 and October 2, 2010</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2.</u>	25
<u>Item 3.</u>	46
<u>Item 4.</u>	46
<b><u>PART II</u></b>	
<u>Item 1.</u>	47
<u>Item 1A.</u>	47
<u>Item 2.</u>	47
<u>Item 3.</u>	47
<u>Item 4.</u>	47
<u>Item 5.</u>	47
<u>Item 6.</u>	47
<u>Signatures</u>	48
<u>Index to Exhibits</u>	E-1
<b>Trademarks, Trade Names and Service Marks</b>	

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.

**Table of Contents**

**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, continue or similar expressions. In 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](http://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](http://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](http://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.

**Table of Contents****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	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net sales	\$ 1,230,185	\$ 1,173,362	\$ 3,491,828	\$ 3,177,054
Cost of sales	804,742	809,487	2,284,620	2,110,943
Gross profit	425,443	363,875	1,207,208	1,066,111
Selling, general and administrative expenses	272,761	249,815	804,215	743,534
Operating profit	152,682	114,060	402,993	322,577
Other expenses	880	1,094	2,295	5,128
Interest expense, net	38,262	36,326	118,545	110,394
Income before income tax expense	113,540	76,640	282,153	207,055
Income tax expense	22,708	15,328	56,430	23,818
Net income	\$ 90,832	\$ 61,312	\$ 225,723	\$ 183,237
Earnings per share:				
Basic	\$ 0.93	\$ 0.64	\$ 2.31	\$ 1.90
Diluted	\$ 0.91	\$ 0.63	\$ 2.28	\$ 1.87
Weighted average shares outstanding:				
Basic	97,925	96,496	97,559	96,417
Diluted	99,535	97,752	99,200	97,790

See accompanying notes to Condensed Consolidated Financial Statements.

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

	<b>October 1, 2011</b>	<b>January 1, 2011</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 47,997	\$ 43,671
Trade accounts receivable less allowances of \$16,779 at October 1, 2011 and \$19,192 at January 1, 2011	589,439	503,243
Inventories	1,726,372	1,322,719
Deferred tax assets	146,357	149,431
Other current assets	64,694	128,607
<b>Total current assets</b>	<b>2,574,859</b>	<b>2,147,671</b>
Property, net	636,409	631,254
Trademarks and other identifiable intangibles, net	173,156	178,622
Goodwill	432,671	430,144
Deferred tax assets and other noncurrent assets	401,485	402,311
<b>Total assets</b>	<b>\$ 4,218,580</b>	<b>\$ 3,790,002</b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 505,884	\$ 412,369
Accrued liabilities	322,588	276,303
Notes payable	34,111	50,678
Current portion of debt	175,000	90,000
<b>Total current liabilities</b>	<b>1,037,583</b>	<b>829,350</b>
Long-term debt	2,005,735	1,990,735
Other noncurrent liabilities	425,021	407,243
<b>Total liabilities</b>	<b>3,468,339</b>	<b>3,227,328</b>
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	97,165,403 at October 1, 2011 and 96,207,025 at January 1, 2011	962
Additional paid-in capital	257,881	294,829
Retained earnings	705,820	480,098
Accumulated other comprehensive loss	(214,432)	(213,215)
<b>Total stockholders' equity</b>	<b>750,241</b>	<b>562,674</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,218,580</b>	<b>\$ 3,790,002</b>

See accompanying notes to Condensed Consolidated Financial Statements.



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

	<b>Nine Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>
<b>Operating activities:</b>		
Net income	\$ 225,723	\$ 183,237
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation	55,707	54,232
Amortization of intangibles	10,861	9,046
Write-off on early extinguishment of debt		2,340
Amortization of debt issuance costs	7,799	9,724
Amortization of loss on interest rate hedge	8,928	13,732
Stock compensation expense	5,901	8,320
Deferred taxes and other	2,970	(10,224)
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(90,942)	(77,782)
Inventories	(404,801)	(333,132)
Other assets	2,305	9,112
Accounts payable	93,526	109,964
Accrued liabilities and other	55,149	(15,643)
<b>Net cash used in operating activities</b>	<b>(26,874)</b>	<b>(37,074)</b>
<b>Investing activities:</b>		
Purchases of property, plant and equipment	(68,744)	(78,570)
Acquisition of business	(9,154)	
Proceeds from sales of assets	12,659	45,469
Other		(519)
<b>Net cash used in investing activities</b>	<b>(65,239)</b>	<b>(33,620)</b>
<b>Financing activities:</b>		
Borrowings on notes payable	305,257	991,061
Repayments on notes payable	(322,185)	(1,015,338)
Borrowings on Accounts Receivable Securitization Facility	229,396	191,424
Repayments on Accounts Receivable Securitization Facility	(144,396)	(141,424)
Borrowings on Revolving Loan Facility	2,448,500	1,597,500
Repayments on Revolving Loan Facility	(2,433,500)	(1,459,000)
Payments to amend credit facilities	(3,757)	(1,688)
Proceeds from stock options exercised	16,784	3,437
Repayment of debt under 2009 Senior Secured Credit Facility		(59,063)
Other	1,393	308
<b>Net cash provided by financing activities</b>	<b>97,492</b>	<b>107,217</b>
Effect of changes in foreign exchange rates on cash	(1,053)	30



Edgar Filing: Hanesbrands Inc. - Form 10-Q

Increase in cash and cash equivalents	4,326	36,553
Cash and cash equivalents at beginning of year	43,671	38,943
Cash and cash equivalents at end of period	\$ 47,997	\$ 75,496

See accompanying notes to Condensed Consolidated Financial Statements.

---

**Table of Contents**

**HANESBRANDS INC.**

**Notes to Condensed Consolidated Financial Statements**

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

**(unaudited)**

**(1) Basis of Presentation**

These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management believes that the disclosures made are adequate for a fair statement of the results of operations, financial condition and cash flows of Hanesbrands Inc., a Maryland corporation, and its consolidated subsidiaries (the "Company" or "Hanesbrands"). In the opinion of management, the condensed consolidated interim financial statements reflect all adjustments, 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.

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)****(dollars and shares in thousands, except per share data)****(unaudited)*****Presentation of Comprehensive Income***

In June 2011, the FASB issued new accounting rules that 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.

***Goodwill Impairment Testing***

In September 2011, the FASB issued new accounting rules related to testing goodwill for impairment. The new accounting rules permit an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test prescribed under current accounting rules. Otherwise, the two-step goodwill impairment test is not required. 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 nine months ended October 1, 2011 and October 2, 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 nine months ended October 1, 2011 and October 2, 2010 is as follows:

	Quarter Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Basic weighted average shares outstanding	97,925	96,496	97,559	96,417
Effect of potentially dilutive securities:				
Stock options	1,230	664	1,221	781
Restricted stock units	377	589	418	591
Employee stock purchase plan and other	3	3	2	1
Diluted weighted average shares outstanding	99,535	97,752	99,200	97,790

For the quarters ended October 1, 2011 and October 2, 2010, 13 and 0 restricted stock units, respectively, and options to purchase 0 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 nine months ended October 1, 2011 and October 2, 2010, 13 and 0 restricted stock units, respectively, and 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.

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

**(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 nine months ended October 1, 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
Charged to expenses	766	1,110	1,876
Deductions and write-offs	(810)	(1,530)	(2,340)
Balance at October 1, 2011	\$ 9,236	\$ 7,543	\$ 16,779

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 \$880 and \$2,295 during the quarter and nine months ended October 1, 2011 and \$1,094 and \$2,557 during the quarter and nine months ended October 2, 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:

Edgar Filing: Hanesbrands Inc. - Form 10-Q

	October 1, 2011	January 1, 2011
Raw materials	\$ 235,785	\$ 155,744
Work in process	130,135	109,304
Finished goods	1,360,452	1,057,671
	\$ 1,726,372	\$ 1,322,719

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

**(6) Debt**

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

	Interest Rate as of October 1, 2011	Principal Amount		Maturity Date
		October 1, 2011	January 1, 2011	
Revolving Loan Facility	5.50%	\$ 15,000	\$	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	1.43%	175,000	90,000	March 2012
		2,180,735	2,080,735	
Less current maturities		175,000	90,000	
		\$ 2,005,735	\$ 1,990,735	

As of October 1, 2011, the Company had \$15,000 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), \$12,729 of standby and trade letters of credit issued and outstanding under this facility and \$572,271 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 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, 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



**Table of Contents**

**HANESBRANDS INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

**(unaudited)**

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 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 October 1, 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.



---

**Table of Contents**

**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 October 1, 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 \$1,000 and \$76,406, 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



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

historical inventory turnover rates. The settlement of foreign exchange hedge derivative contracts 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 October 1, 2011, the U.S. dollar equivalent of commitments to sell foreign currencies in the Company's foreign currency cash flow hedge derivative portfolio was \$25,822, 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 October 1, 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:

	Balance Sheet Location	Fair Value	
		October 1, 2011	January 1, 2011
<b>Derivative assets hedges</b>			
Interest rate contracts	Other current assets	\$	\$ 3
Foreign exchange contracts	Other current assets	1,533	408
Total derivative assets hedges		1,533	411
<b>Derivative assets non-hedges</b>			
Foreign exchange contracts	Other current assets	760	
<b>Total derivative assets</b>		\$ 2,293	\$ 411
<b>Derivative liabilities hedges</b>			
Foreign exchange contracts	Accrued liabilities	(127)	(874)
Total derivative liabilities hedges		(127)	(874)
<b>Derivative liabilities non-hedges</b>			
Foreign exchange contracts	Accrued liabilities	(436)	(471)
<b>Total derivative liabilities</b>		\$ (563)	\$ (1,345)

**Net derivative asset (liability)**

\$ 1,730    \$    (934)

Table of Contents

## HANESBRANDS INC.

## Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

*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	
	October 1, 2011	October 2, 2010		October 1, 2011	October 2, 2010
Interest rate contracts	\$	\$ (82)	Interest expense, net	\$ (2,550)	\$ (4,214)
Foreign exchange contracts	3,486	(2,387)	Cost of sales	(96)	(514)
<b>Total</b>	<b>\$ 3,486</b>	<b>\$ (2,469)</b>		<b>\$ (2,646)</b>	<b>\$ (4,728)</b>

	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss (Effective Portion) Nine 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) Nine Months Ended	
	October 1, 2011	October 2, 2010		October 1, 2011	October 2, 2010
Interest rate contracts	\$ (3)	\$ (499)	Interest expense, net	\$ (9,187)	\$ (13,836)
Foreign exchange contracts	223	(2,096)	Cost of sales	(1,013)	(1,138)
<b>Total</b>	<b>\$ 220</b>	<b>\$ (2,595)</b>		<b>\$ (10,200)</b>	<b>\$ (14,974)</b>

The Company expects to reclassify into earnings during the next 12 months a net loss from Accumulated other comprehensive loss of approximately \$6,848. 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 \$8,115 as of October 1, 2011.

## Edgar Filing: Hanesbrands Inc. - Form 10-Q

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 gains for the quarter and nine months ended October 1, 2011 related to ineffectiveness of hedging relationships for foreign exchange contracts of \$254 and \$191, respectively. The Company recognized gains (losses) for the quarter and nine months ended October 2, 2010 related to ineffectiveness of hedging relationships for foreign exchange contracts of \$(1) and \$6, respectively.

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

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

	Location of Gain (Loss)	Amount of Gain (Loss) Recognized in Income Quarter Ended		Amount of Gain (Loss) Recognized in Income Nine Months Ended	
		Recognized in Income		Recognized in Income	
		October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Foreign exchange contracts	Selling, general and administrative expenses	\$ 756	\$ (1,838)	\$ (2,330)	\$ (1,309)
<b>Total</b>		\$ 756	\$ (1,838)	\$ (2,330)	\$ (1,309)

**(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 October 1, 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 October 1, 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 October 1, 2011. As of and during the quarter and nine months ended October 1, 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.

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

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 October 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	\$	\$ 2,293	\$
Foreign exchange derivative contracts		(563)	
<b>Total</b>	<b>\$</b>	<b>\$ 1,730</b>	<b>\$</b>

	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	
<b>Total</b>	<b>\$</b>	<b>\$ (934)</b>	<b>\$</b>

***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 October 1, 2011 and January 1, 2011. The fair value of debt was \$2,149,091 and \$2,060,828 as of October 1, 2011 and January 1, 2011 and had a carrying value of \$2,180,735 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 October 1, 2011 and January 1, 2011, primarily due to the short-term nature of these instruments.





**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

**(9) Comprehensive Income**

The Company's comprehensive income is as follows:

	Quarter Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net income	\$ 90,832	\$ 61,312	\$ 225,723	\$ 183,237
Translation adjustments	(14,254)	8,399	(7,483)	2,079
Amortization of loss on interest rate hedge, net of tax of \$982, \$1,672, \$3,560 and \$5,476, respectively	1,481	2,519	5,368	8,256
Net unrealized gain (loss) on qualifying cash flow hedges, net of tax of \$1,463, \$(771), \$595 and \$(540), respectively	2,206	(1,162)	897	(814)
Recognition of loss from pension plan settlement, net of tax of \$0, \$53, \$0 and \$53, respectively.		69		69
Amounts amortized into net periodic cost:				
Prior service cost, net of tax of \$3, \$3, \$9 and \$9, respectively	4	4	12	12
Actuarial loss, net of tax of \$908, \$860, \$2,724 and \$2,580, respectively	1,370	1,297	4,110	3,891
<b>Comprehensive income</b>	<b>\$ 81,639</b>	<b>\$ 72,438</b>	<b>\$ 228,627</b>	<b>\$ 196,730</b>

**(10) Income Taxes**

The Company's effective income tax rate was 20% for the quarter and nine months ended October 1, 2011, and 20% and 12% for the quarter and nine months ended October 2, 2010, respectively. The lower effective income tax rate of 12% for the nine months ended October 2, 2010 was primarily attributable to a one-time income tax benefit of approximately \$20,000 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, during the second quarter of 2011 the Company recorded a non-cash transaction that reduced Other current assets and Additional paid-in capital by \$68,523.



**Table of Contents**

**HANESBRANDS INC.**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

**(unaudited)**

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 October 1, 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 material 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.

000000000000	000000000000	000000000000	000000000000
<b>Quarter Ended</b>		<b>Nine Months Ended</b>	

Edgar Filing: Hanesbrands Inc. - Form 10-Q

	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
<b>Net sales:</b>				
Innerwear	\$ 515,263	\$ 512,486	\$ 1,571,277	\$ 1,522,553
Outerwear	432,804	389,474	1,094,888	894,653
Hosiery	34,481	37,442	113,051	117,273
Direct to Consumer	97,565	100,327	277,819	278,680
International	150,072	133,633	434,793	363,895
<b>Total net sales</b>	<b>\$ 1,230,185</b>	<b>\$ 1,173,362</b>	<b>\$ 3,491,828</b>	<b>\$ 3,177,054</b>

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

	00000000000	00000000000	00000000000	00000000000
	Quarter Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
<b>Segment operating profit:</b>				
Innerwear	\$ 79,353	\$ 55,249	\$ 231,321	\$ 225,896
Outerwear	55,602	38,349	117,025	61,034
Hosiery	8,792	11,223	34,465	39,224
Direct to Consumer	12,308	10,569	22,070	18,898
International	15,839	16,748	53,614	42,462
<b>Total segment operating profit</b>	<b>171,894</b>	<b>132,138</b>	<b>458,495</b>	<b>387,514</b>
Items not included in segment operating profit:				
General corporate expenses	(15,587)	(15,160)	(44,641)	(55,891)
Amortization of trademarks and other identifiable intangibles	(3,625)	(2,918)	(10,861)	(9,046)
<b>Total operating profit</b>	<b>152,682</b>	<b>114,060</b>	<b>402,993</b>	<b>322,577</b>
Other expenses	(880)	(1,094)	(2,295)	(5,128)
Interest expense, net	(38,262)	(36,326)	(118,545)	(110,394)
<b>Income before income tax expense</b>	<b>\$ 113,540</b>	<b>\$ 76,640</b>	<b>\$ 282,153</b>	<b>\$ 207,055</b>
	00000000000	00000000000	00000000000	00000000000
	Quarter Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
<b>Depreciation and amortization expense:</b>				
Innerwear	\$ 9,293	\$ 8,631	\$ 28,286	\$ 25,847
Outerwear	5,938	5,337	16,931	15,026
Hosiery	361	629	1,227	2,157
Direct to Consumer	1,805	1,589	5,291	4,359
International	619	418	1,680	1,573
	18,016	16,604	53,415	48,962
Corporate	4,417	3,945	13,153	14,316
<b>Total depreciation and amortization expense</b>	<b>\$ 22,433</b>	<b>\$ 20,549</b>	<b>\$ 66,568</b>	<b>\$ 63,278</b>
	00000000000	00000000000	00000000000	00000000000
	Quarter Ended		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
<b>Additions to long-lived assets:</b>				
Innerwear	\$ 8,063	\$ 10,186	\$ 27,758	\$ 37,326
Outerwear	10,188	6,348	28,857	25,998
Hosiery	320	124	610	426

Edgar Filing: Hanesbrands Inc. - Form 10-Q

Direct to Consumer	661	2,388	5,670	9,741
International	884	504	2,492	1,763
	20,116	19,550	65,387	75,254
Corporate	888	921	3,357	3,316
Total additions to long-lived assets	\$ 21,004	\$ 20,471	\$ 68,744	\$ 78,570

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

**(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.

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. A guarantor subsidiary's guarantee can be released in certain customary circumstances. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation.

	<b>Condensed Consolidating Statement of Income</b>				
	<b>Quarter Ended October 1, 2011</b>				
	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 1,033,841	\$ 191,387	\$ 965,469	\$ (960,512)	\$ 1,230,185
Cost of sales	854,113	96,888	878,838	(1,025,097)	804,742
Gross profit	179,728	94,499	86,631	64,585	425,443
Selling, general and administrative expenses	200,507	32,897	40,535	(1,178)	272,761
Operating profit (loss)	(20,779)	61,602	46,096	65,763	152,682
Equity in earnings (loss) of subsidiaries	157,422	34,198		(191,620)	
Other expenses	880				880
Interest expense, net	35,802	(1)	2,461		38,262
Income (loss) before income tax expense	99,961	95,801	43,635	(125,857)	113,540
Income tax expense	9,129	7,479	6,100		22,708



Edgar Filing: Hanesbrands Inc. - Form 10-Q

Net income (loss)	\$	90,832	\$	88,322	\$	37,535	\$	(125,857)	\$	90,832
-------------------	----	--------	----	--------	----	--------	----	-----------	----	--------

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

	<b>Condensed Consolidating Statement of Income</b>				
	<b>Quarter Ended October 2, 2010</b>				
	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 1,104,713	\$ 113,915	\$ 830,265	\$ (875,531)	\$ 1,173,362
Cost of sales	875,963	43,270	748,701	(858,447)	809,487
Gross profit	228,750	70,645	81,564	(17,084)	363,875
Selling, general and administrative expenses	201,440	20,282	27,784	309	249,815
Operating profit (loss)	27,310	50,363	53,780	(17,393)	114,060
Equity in earnings (loss) of subsidiaries	71,944	33,908		(105,852)	
Other expenses	1,094				1,094
Interest expense, net	33,678	(22)	2,673	(3)	36,326
Income (loss) before income tax expense	64,482	84,293	51,107	(123,242)	76,640
Income tax expense	3,170	7,635	4,523		15,328
Net income (loss)	\$ 61,312	\$ 76,658	\$ 46,584	\$ (123,242)	\$ 61,312

	<b>Condensed Consolidating Statement of Income</b>				
	<b>Nine Months Ended October 1, 2011</b>				
	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 3,059,251	\$ 501,886	\$ 2,824,447	\$ (2,893,756)	\$ 3,491,828
Cost of sales	2,411,850	240,932	2,495,031	(2,863,193)	2,284,620
Gross profit	647,401	260,954	329,416	(30,563)	1,207,208
Selling, general and administrative expenses	597,983	98,775	109,484	(2,027)	804,215
Operating profit (loss)	49,418	162,179	219,932	(28,536)	402,993
Equity in earnings (loss) of subsidiaries	308,288	147,809		(456,097)	
Other expenses	2,295				2,295
Interest expense, net	110,773	(35)	7,807		118,545
Income (loss) before income tax expense	244,638	310,023	212,125	(484,633)	282,153
Income tax expense	18,915	21,353	16,162		56,430
Net income (loss)	\$ 225,723	\$ 288,670	\$ 195,963	\$ (484,633)	\$ 225,723



**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

	<b>Condensed Consolidating Statement of Income</b>				
	<b>Nine Months Ended October 2, 2010</b>				
	<b>Parent</b>	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>Consolidating</b>	<b>Consolidated</b>
	<b>Company</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>Entries and</b>	
				<b>Eliminations</b>	
Net sales	\$ 3,034,863	\$ 319,231	\$ 2,317,522	\$ (2,494,562)	\$ 3,177,054
Cost of sales	2,423,688	118,694	2,054,675	(2,486,114)	2,110,943
Gross profit	611,175	200,537	262,847	(8,448)	1,066,111
Selling, general and administrative expenses	589,755	69,018	83,734	1,027	743,534
Operating profit (loss)	21,420	131,519	179,113	(9,475)	322,577
Equity in earnings (loss) of subsidiaries	260,220	117,996		(378,216)	
Other expenses	5,128				5,128
Interest expense, net	101,490	(67)	8,971		110,394
Income (loss) before income tax expense (benefit)	175,022	249,582	170,142	(387,691)	207,055
Income tax expense (benefit)	(8,215)	20,271	11,762		23,818
Net income (loss)	\$ 183,237	\$ 229,311	\$ 158,380	\$ (387,691)	\$ 183,237

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

	<b>Condensed Consolidating Balance Sheet</b>				
	<b>October 1, 2011</b>				
	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 12,526	\$ 2,055	\$ 33,416	\$	\$ 47,997
Trade accounts receivable less allowances	5,928	61,290	527,955	(5,734)	589,439
Inventories	1,251,668	119,703	453,423	(98,422)	1,726,372
Deferred tax assets	156,023	1,996	(11,662)		146,357
Other current assets	31,336	9,888	23,642	(172)	64,694
<b>Total current assets</b>	<b>1,457,481</b>	<b>194,932</b>	<b>1,026,774</b>	<b>(104,328)</b>	<b>2,574,859</b>
Property, net	109,538	48,138	478,733		636,409
Trademarks and other identifiable intangibles, net	14,425	136,196	22,535		173,156
Goodwill	232,882	124,214	75,575		432,671
Investments in subsidiaries	1,843,114	1,033,858		(2,876,972)	
Deferred tax assets and other noncurrent assets	(105,222)	472,501	253,512	(219,306)	401,485
<b>Total assets</b>	<b>\$ 3,552,218</b>	<b>\$ 2,009,839</b>	<b>\$ 1,857,129</b>	<b>\$ (3,200,606)</b>	<b>\$ 4,218,580</b>
<b>Liabilities and Stockholders</b>					
<b>Equity</b>					
Accounts payable	\$ 237,446	\$ 19,201	\$ 249,237	\$	\$ 505,884
Accrued liabilities	192,751	50,307	79,575	(45)	322,588
Notes payable			34,111		34,111
Current portion of debt			175,000		175,000
<b>Total current liabilities</b>	<b>430,197</b>	<b>69,508</b>	<b>537,923</b>	<b>(45)</b>	<b>1,037,583</b>
Long-term debt	2,005,735				2,005,735
Other noncurrent liabilities	366,045	36,086	22,890		425,021
<b>Total liabilities</b>	<b>2,801,977</b>	<b>105,594</b>	<b>560,813</b>	<b>(45)</b>	<b>3,468,339</b>
Stockholders' equity	750,241	1,904,245	1,296,316	(3,200,561)	750,241
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,552,218</b>	<b>\$ 2,009,839</b>	<b>\$ 1,857,129</b>	<b>\$ (3,200,606)</b>	<b>\$ 4,218,580</b>

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

	<b>Condensed Consolidating Balance Sheet</b>				
	<b>January 1, 2011</b>				
	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 17,535	\$ 2,039	\$ 24,097	\$	\$ 43,671
Trade accounts receivable less allowances	50,375	35,256	417,612		503,243
Inventories	954,073	100,435	355,908	(87,697)	1,322,719
Deferred tax assets	160,178	2,005	(12,752)		149,431
Other current assets	95,702	11,475	21,646	(216)	128,607
<b>Total current assets</b>	<b>1,277,863</b>	<b>151,210</b>	<b>806,511</b>	<b>(87,913)</b>	<b>2,147,671</b>
Property, net	118,596	47,842	464,816		631,254
Trademarks and other identifiable intangibles, net	16,006	141,635	20,981		178,622
Goodwill	232,882	124,214	73,048		430,144
Investments in subsidiaries	1,542,231	886,349		(2,428,580)	
Deferred tax assets and other noncurrent assets	115,500	350,862	146,859	(210,910)	402,311
<b>Total assets</b>	<b>\$ 3,303,078</b>	<b>\$ 1,702,112</b>	<b>\$ 1,512,215</b>	<b>\$ (2,727,403)</b>	<b>\$ 3,790,002</b>
<b>Liabilities and Stockholders</b>					
<b>Equity</b>					
Accounts payable	\$ 243,169	\$ 17,198	\$ 152,002	\$	\$ 412,369
Accrued liabilities	150,831	55,502	69,979	(9)	276,303
Notes payable			50,678		50,678
Current portion of debt			90,000		90,000
<b>Total current liabilities</b>	<b>394,000</b>	<b>72,700</b>	<b>362,659</b>	<b>(9)</b>	<b>829,350</b>
Long-term debt	1,990,735				1,990,735
Other noncurrent liabilities	355,669	35,072	16,502		407,243
<b>Total liabilities</b>	<b>2,740,404</b>	<b>107,772</b>	<b>379,161</b>	<b>(9)</b>	<b>3,227,328</b>
Stockholders' equity	562,674	1,594,340	1,133,054	(2,727,394)	562,674
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,303,078</b>	<b>\$ 1,702,112</b>	<b>\$ 1,512,215</b>	<b>\$ (2,727,403)</b>	<b>\$ 3,790,002</b>

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

	<b>Condensed Consolidating Statement of Cash Flows Nine Months Ended October 1, 2011</b>				
	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
Net cash provided by (used in) operating activities	\$ 377,231	\$ 131,185	\$ (75,437)	\$ (459,853)	\$ (26,874)
Investing activities:					
Purchases of property, plant and equipment	(11,598)	(8,151)	(48,995)		(68,744)
Acquisition of business			(9,154)		(9,154)
Proceeds from sales of assets	364	67	12,228		12,659
Net cash used in investing activities	(11,234)	(8,084)	(45,921)		(65,239)
Financing activities:					
Borrowings on notes payable			305,257		305,257
Repayments on notes payable			(322,185)		(322,185)
Borrowings on Accounts Receivable Securitization Facility			229,396		229,396
Repayments on Accounts Receivable Securitization Facility			(144,396)		(144,396)
Borrowings on Revolving Loan Facility	2,448,500				2,448,500
Repayments on Revolving Loan Facility	(2,433,500)				(2,433,500)
Payments to amend credit facilities	(3,089)		(668)		(3,757)
Proceeds from stock options exercised	16,784				16,784
Other	1,430		(37)		1,393
Net transactions with related entities	(401,131)	(123,085)	64,363	459,853	
Net cash provided by (used in) financing activities	(371,006)	(123,085)	131,730	459,853	97,492
Effect of changes in foreign exchange rates on cash			(1,053)		(1,053)
Increase (decrease) in cash and cash equivalents	(5,009)	16	9,319		4,326
Cash and cash equivalents at beginning of year	17,535	2,039	24,097		43,671
Cash and cash equivalents at end of period	\$ 12,526	\$ 2,055	\$ 33,416	\$	\$ 47,997

**Table of Contents****HANESBRANDS INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

(unaudited)

	<b>Condensed Consolidating Statement of Cash Flows</b>				
	<b>Nine Months Ended October 2, 2010</b>				
	<b>Parent</b>	<b>Guarantor</b>	<b>Non-Guarantor</b>	<b>Consolidating</b>	<b>Consolidated</b>
	<b>Company</b>	<b>Subsidiaries</b>	<b>Subsidiaries</b>	<b>Entries and</b>	
				<b>Eliminations</b>	
Net cash provided by (used in) operating activities	\$ 168,472	\$ 124,951	\$ 46,204	\$ (376,701)	\$ (37,074)
Investing activities:					
Purchases of property, plant and equipment	(21,652)	(8,989)	(47,929)		(78,570)
Proceeds from sales of assets	44,436		1,033		45,469
Other	(519)				(519)
Net cash provided by (used in) investing activities	22,265	(8,989)	(46,896)		(33,620)
Financing activities:					
Borrowings on notes payable			991,061		991,061
Repayments on notes payable			(1,015,338)		(1,015,338)
Borrowings on Accounts Receivable Securitization Facility			191,424		191,424
Repayments on Accounts Receivable Securitization Facility			(141,424)		(141,424)
Borrowings on Revolving Loan Facility	1,597,500				1,597,500
Repayments on Revolving Loan Facility	(1,459,000)				(1,459,000)
Payments to amend credit facilities	(1,688)				(1,688)
Proceeds from stock options exercised	3,437				3,437
Repayment of debt under 2009 Senior Secured Credit Facility	(59,063)				(59,063)
Other	342		(34)		308
Net transactions with related entities	(245,549)	(116,352)	(14,800)	376,701	
Net cash provided by (used in) financing activities	(164,021)	(116,352)	10,889	376,701	107,217
Effect of changes in foreign exchange rates on cash			30		30
Increase (decrease) in cash and cash equivalents	26,716	(390)	10,227		36,553
Cash and cash equivalents at beginning of year	12,805	1,646	24,492		38,943
Cash and cash equivalents at end of period	\$ 39,521	\$ 1,256	\$ 34,719	\$	\$ 75,496



---

## **Table of Contents**

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

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" in this Quarterly Report on Form 10-Q for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended January 1, 2011, which were included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. 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.

### **Overview**

We are a consumer goods company with a portfolio of leading apparel brands, including *Hanes*, *Champion*, *Playtex*, *Bali*, *Leggs*, *Just My Size*, *barely there*, *Wonderbra*, *Stedman*, *Outer Banks*, *Zorba*, *Rinbros*, *Duofold* 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, kids' underwear, casualwear, activewear, socks and hosiery.

Our 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. Certain prior year segment operating profit disclosures have been revised to conform to the current year presentation. These changes were primarily the result of our decision to cease allocating certain compensation related expenses to the segments.

### ***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. Sales are typically higher in the last two quarters (July to December) of each fiscal year. Socks, hosiery and fleece products generally have higher sales during this period as a result of cooler weather, back-to-school shopping and holidays. 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 orders, change delivery schedules 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, currency exchange rates, taxation, electricity power rates, gasoline prices, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside 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.

---

**Table of Contents**

***Outlook for 2011***

We expect net sales of \$1.2 billion to \$1.3 billion for the fourth quarter of 2011, or \$4.7 billion to \$4.8 billion for the full year of 2011. Our expectations for net sales reflect a cautious outlook for the fourth quarter.

Because of systemic cost inflation in 2011 as described below, particularly for cotton, energy and labor, we have taken price increases as warranted by cost inflation. The timing, magnitude and frequency of price increases have varied by product category, channel of trade, and country, with some increases as frequently as quarterly. Demand elasticity effects have been factored into our net sales projections for the fourth quarter and full year of 2011.

For 2011, we believe we know the majority of our costs, with cotton prices locked in for the full year. Our current 2011 earnings expectations assume we will realize efficiency savings from our supply chain optimization of approximately \$40 million to \$45 million in 2011, of which \$34 million has already been realized in the nine months of 2011. Our expectations also assume that we will eliminate the majority of excess 2010 freight and other distribution costs related to servicing sales growth of approximately \$30 million to \$35 million, of which \$8 million was eliminated in the third quarter and approximately \$25 million to \$30 million is expected to be eliminated in the fourth quarter of 2011. Approximately two-thirds of the eliminated excess costs will come from gross profit and one-third will come from selling, general and administrative expenses. Our earnings expectations also assume continued investment in trade and media spending consistent with our historical rate, slightly higher interest expense, and a higher full-year tax rate that could range from a percentage in the teens to the low 20s.

As a result of the cost inflation and higher product pricing, we expect a negative impact on our cash flow from higher working capital, in particular higher accounts receivable and inventories, partially offset by higher accounts payable. We typically use cash for the first half of the year and generate most of our cash flow in the second half of the year.

Year-end 2011 inventory is expected to be approximately \$250 million to \$300 million higher than year-end 2010 as a result of high inflationary costs.

***Business and Industry Trends***

***Inflation and Changing Prices***

The economic environment in which we are operating continues to be uncertain and volatile, which could have unanticipated adverse effects on our business during the remainder of 2011 and beyond. We have seen a sustained increase in various input costs, such as cotton and oil-related materials, utilities, freight and wages, which have impacted our results in 2011 and will continue to do so through at least the first half of 2012. The estimated impact of cost inflation could be approximately \$270 million to \$280 million higher in 2011 over 2010.

Although nearly 40% of our business, such as bras, sheer hosiery and portions of our activewear categories, is not cotton-based, and we have sold our yarn operations, we are still exposed to fluctuations in the cost of cotton. Rising demand for cotton resulting from the economic recovery, weather-related supply disruptions, significant declines in U.S. inventory and a sharp rise in the futures market for cotton caused cotton prices to surge upward during 2010 and early 2011. During 2010, cotton prices hit their highest levels in 140 years. Increases in the cost of cotton can result in higher costs in the price we pay for yarn from our large-scale yarn suppliers. Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by, among other factors, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. We are able to lock in the cost of cotton reflected in the price we pay for yarn from our primary yarn suppliers in an attempt to protect our business from the volatility of the market price of cotton. However, our business can be affected by dramatic movements in cotton prices. The nine months of 2011 reflect an average cost of cotton of 88 cents per pound. After taking into consideration the cotton costs currently included in our finished goods inventory and cotton prices we have locked in, we expect the average cost of cotton will exceed \$1.00 per pound for the full year, which will have a negative impact of approximately \$140 million to \$145 million when compared to 2010. These amounts do not include the impact of cotton costs on the cost of sourced goods.

---

**Table of Contents**

Inflation can have a long-term impact on us because increasing costs of materials and labor may impact our ability to maintain satisfactory margins. For example, the cost of the materials that are used in our manufacturing process, such as oil-related commodities and other raw materials, such as dyes and chemicals, and other costs, such as fuel, energy and utility costs, can fluctuate as a result of inflation and other factors. Costs incurred for materials and labor are capitalized into inventory and impact our results as the inventory is sold. In addition, a significant portion of our products are manufactured in countries other than the United States and declines in the value of the U.S. dollar may result in higher manufacturing costs. Increases in inflation may not be matched by rises in consumer income, which also could have a negative impact on spending.

Given the systemic cost inflation that the apparel industry is currently experiencing, many apparel retailers and manufacturers implemented price increases in 2011 in order to maintain satisfactory margins. Higher raw material costs, including cotton, and higher labor costs overseas are the primary reasons that price increases are needed to manage the inflated costs. If we incur increased costs for materials, including cotton, and labor that we are unable to recoup through price increases or improved efficiencies, or if consumer spending declines, our business, results of operations, financial condition and cash flows may be adversely affected.

*Other Business and Industry Trends*

The basic apparel market is highly competitive and evolving rapidly. Competition is generally based upon brand name recognition, price, product quality, selection, service and purchasing convenience. The majority of our core styles continue from year to year, with variations only in color, fabric or design details. Some products, however, such as intimate apparel, activewear and sheer hosiery, do have more of an emphasis on style and innovation. Our businesses face competition from other large corporations and foreign manufacturers, as well as smaller companies, department stores, specialty stores and other retailers that market and sell basic apparel products under private labels that compete directly with our brands.

Anticipating changes in and managing our operations in response to consumer preferences remains an important element of our business. In recent years, we have experienced changes in our net sales and cash flows in accordance with changes in consumer preferences and trends. For example, we expect the trend of declining hosiery sales to continue consistent with the overall decline in the industry and with shifts in consumer preferences. The Hosiery segment only comprised 4% of our net sales in 2010 however, and as a result, the decline in the Hosiery segment has not had a significant impact on our net sales, revenues or cash flows. Generally, we manage the Hosiery segment for cash, placing an emphasis on reducing our cost structure and managing cash efficiently.

*Economic Trends and other Developments that Impact our Business*

We are operating in an uncertain and volatile economic environment, which could have unanticipated adverse effects on our business. We have experienced substantial pressure on profitability due to the economic climate, such as higher cotton, energy and labor costs. Rising demand for cotton resulting from the economic recovery, weather-related supply disruptions, significant declines in U.S. inventory and a sharp rise in the futures market for cotton caused cotton prices to surge upward in 2010 and early 2011. Because of systemic cost inflation in 2011, particularly for cotton, energy and labor, we have taken price increases as warranted by cost inflation. The timing, magnitude and frequency of price increases have varied by product category, channel of trade, and country, with some increases as frequently as quarterly.

**Highlights from the Third Quarter and Nine Months Ended October 1, 2011**

Total net sales in the third quarter of 2011 were \$1.23 billion, compared with \$1.17 billion in the same quarter of 2010, representing a 4.8% increase. Total net sales in the first nine months of 2011 were \$3.49 billion, compared with \$3.18 billion in the same period of 2010, representing a 9.9% increase.

Operating profit was \$153 million in the third quarter of 2011, compared with \$114 million in the same quarter of 2010. As a percent of sales, operating profit was 12.4% in the third quarter of 2011 compared to 9.7% in the same quarter of 2010. The operating margin of 12.4% in the third quarter of 2011 is the highest since our spin off in September 2006. Operating profit was \$403 million in the first nine months

**Table of Contents**

of 2011, compared with \$323 million in the same period of 2010. As a percent of sales, operating profit was 11.5% in the first nine months of 2011 compared to 10.2% in the same period of 2010.

Diluted earnings per share were \$0.91 in the third quarter of 2011, compared with \$0.63 in the same quarter of 2010. Diluted earnings per share were \$2.28 in the first nine months of 2011, compared with \$1.87 in the same period of 2010.

Gross capital expenditures were \$69 million during the first nine months of 2011, compared with \$79 million in the same period of 2010. Proceeds from sales of assets were \$13 million in the first nine months of 2011 and \$45 million in the same period of 2010.

**Condensed Consolidated Results of Operations Third Quarter Ended October 1, 2011 Compared with Third Quarter Ended October 2, 2010**

	Quarter Ended		Higher (Lower)	Percent Change
	October 1, 2011	October 2, 2010		
	(dollars in thousands)			
Net sales	\$ 1,230,185	\$ 1,173,362	\$ 56,823	4.8 %
Cost of sales	804,742	809,487	(4,745)	(0.6)
Gross profit	425,443	363,875	61,568	16.9
Selling, general and administrative expenses	272,761	249,815	22,946	9.2
Operating profit	152,682	114,060	38,622	33.9
Other expenses	880	1,094	(214)	(19.6)
Interest expense, net	38,262	36,326	1,936	5.3
Income before income tax expense	113,540	76,640	36,900	48.1
Income tax expense	22,708	15,328	7,380	48.1
Net income	\$ 90,832	\$ 61,312	\$ 29,520	48.1 %

**Net Sales**

	Quarter Ended		Higher (Lower)	Percent Change
	October 1, 2011	October 2, 2010		
	(dollars in thousands)			
Net sales	\$ 1,230,185	\$ 1,173,362	\$ 56,823	4.8 %

Consolidated net sales were higher by \$57 million or 5% in the third quarter of 2011 compared to the third quarter of 2010. The third quarter of 2011 is our seventh consecutive quarter of growth. The net sales growth reflects net price increases, incremental net sales from Gear for Sports, which was acquired in the fourth quarter of 2010, and a favorable impact from foreign currency exchange rates, partially offset by lower unit sales volume in most categories.

Our three largest segments, Innerwear, Outerwear and International, demonstrated growth in net sales, with Outerwear and International delivering double digit sales growth. Outerwear, International and Innerwear segment net sales were higher by \$43 million (11%), \$16 million (12%) and \$3 million (1%), respectively. Hosiery and Direct to Consumer segment net sales were lower by \$3 million (8%) and \$3 million (3%), respectively.



**Table of Contents****Gross Profit**

	Quarter Ended			
	October 1, 2011	October 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
Gross profit	\$ 425,443	\$ 363,875	\$ 61,568	16.9 %

As a percent of net sales, our gross profit was 34.6% in the third quarter of 2011 compared to 31.0% in the third quarter of 2010. Our gross profit was higher by \$62 million in the third quarter of 2011 compared to the third quarter of 2010. The higher gross profit was primarily attributable to higher gross profit of \$29 million from the Outerwear segment, of which \$27 million was attributable to Gear for Sports, \$28 million from the Innerwear segment and \$8 million from the International segment, partially offset by lower gross profit of \$3 million from the Hosiery segment and slightly lower gross profit from the Direct to Consumer segment. General corporate expenses within gross profit, which are not allocated to segments, were slightly higher in the third quarter of 2011 compared to the third quarter of 2010.

Our results in the third quarter of 2011 benefited primarily from net price increases of \$115 million, which includes the impact of lower sales incentives of \$3 million, favorable product sales mix of \$18 million, efficiency savings from our supply chain optimization of \$11 million, a favorable impact related to foreign currency exchange rates of \$3 million and lower start-up and shut-down costs of \$2 million and were negatively impacted by higher input costs of \$56 million, particularly cotton and energy and oil-related materials, lower sales volumes of \$29 million and higher other manufacturing costs of \$2 million, which is net of the elimination of \$6 million of excess 2010 costs related to servicing sales growth.

The average cotton price reflected in our results was 97 cents per pound in the third quarter of 2011 compared to 72 cents per pound in the third quarter of 2010. After taking into consideration the cotton costs currently included in our finished goods inventory and cotton prices we have locked in, we expect the average cost of cotton will exceed \$1.00 per pound for the full year. These amounts do not include the impact of cotton costs on the cost of sourced goods. While cotton prices have declined in recent months, we will continue to have higher prices for cotton and oil-related materials reflected in our cost of sales, which will impact our results for the remainder of 2011 and the first half of 2012.

**Selling, General and Administrative Expenses**

	Quarter Ended			
	October 1, 2011	October 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
Selling, general and administrative expenses	\$ 272,761	\$ 249,815	\$ 22,946	9.2 %

Our selling, general and administrative expenses were \$23 million higher in the third quarter of 2011 compared to the third quarter of 2010. As a percent of net sales our selling, general and administrative expenses were 22.2% in the third quarter of 2011 compared to 21.3% in the third quarter of 2010. Outerwear, International and Innerwear segment selling, general and administrative expenses were higher by \$12 million, \$9 million and \$4 million, respectively, and Direct to Consumer and Hosiery segment selling, general and administrative expenses were lower by \$2 million and \$1 million, respectively. General corporate expenses within selling, general and administrative expenses, which are not allocated to segments, were flat in the third quarter of 2011 compared to the third quarter of 2010.

The higher selling, general and administrative expenses were primarily attributable to higher selling and other marketing expenses of \$11 million, incremental administrative costs of \$3 million attributable to Gear for Sports, higher media related media, advertising and promotion ( MAP ) expenses of \$2 million, higher stock compensation and certain other benefit costs of \$2 million, higher distribution expenses of \$2 million, which is net of the elimination of \$2 million of excess 2010 costs related to servicing sales growth, and higher expenses as a result of opening new retail stores or expanding existing stores of \$2 million.

**Table of Contents****Operating Profit**

	Quarter Ended		Higher	Percent
	October 1, 2011	October 2, 2010	(Lower)	Change
	(dollars in thousands)			
Operating profit	\$ 152,682	\$ 114,060	\$ 38,622	33.9 %

The higher operating profit was primarily attributable to higher operating profit of \$24 million from the Innerwear segment, \$17 million from the Outerwear segment and \$2 million from the Direct to Consumer segment, partially offset by lower operating profit of \$2 million from the Hosiery segment and \$1 million from the International segment.

**Other Expenses**

	Quarter Ended		Higher	Percent
	October 1, 2011	October 2, 2010	(Lower)	Change
	(dollars in thousands)			
Other expenses	\$ 880	\$ 1,094	\$ (214)	(19.6)%

During the third quarter of 2011 and the third quarter of 2010, we incurred charges of \$1 million for funding fees associated with the sales of certain trade accounts receivable to financial institutions.

**Interest Expense, Net**

	Quarter Ended		Higher	Percent
	October 1, 2011	October 2, 2010	(Lower)	Change
	(dollars in thousands)			
Interest expense, net	\$ 38,262	\$ 36,326	\$ 1,936	5.3 %

Interest expense, net was higher by \$2 million in the third quarter of 2011 compared to the third quarter of 2010. The higher interest expense was primarily attributable to higher outstanding debt balances that increased interest expense by \$3 million. Our weighted average interest rate on our outstanding debt, which excludes the impact of noncash items such as the amortization of debt issuance costs, was 5.50% during the third quarter of 2011 compared to 6.21% in the third quarter of 2010.

**Income Tax Expense**

	Quarter Ended		Higher	Percent
	October 1, 2011	October 2, 2010	(Lower)	Change
	(dollars in thousands)			
Income tax expense	\$ 22,708	\$ 15,328	\$ 7,380	48.1 %

Our effective income tax rate was 20% in the third quarter of 2011 and the third quarter of 2010.

**Net Income**

	Quarter Ended		Higher	Percent
	October 1, 2011	October 2, 2010	(Lower)	Change

## Edgar Filing: Hanesbrands Inc. - Form 10-Q

	2011	2010	(Lower)	Change
		(dollars in thousands)		
Net income	\$ 90,832	\$ 61,312	\$ 29,520	48.1 %

Net income for the third quarter of 2011 was higher than the third quarter of 2010 primarily due to higher operating profit of \$39 million, partially offset by higher income tax expense of \$7 million and higher interest expense of \$2 million.



**Table of Contents****Operating Results by Business Segment Third Quarter Ended October 1, 2011 Compared with Third Quarter Ended October 2, 2010**

	Quarter Ended		Higher (Lower)	Percent Change
	October 1, 2011	October 2, 2010		
(dollars in thousands)				
<b>Net sales:</b>				
Innerwear	\$ 515,263	\$ 512,486	\$ 2,777	0.5 %
Outerwear	432,804	389,474	43,330	11.1
Hosiery	34,481	37,442	(2,961)	(7.9)
Direct to Consumer	97,565	100,327	(2,762)	(2.8)
International	150,072	133,633	16,439	12.3
Total net sales	\$ 1,230,185	\$ 1,173,362	\$ 56,823	4.8 %
<b>Segment operating profit:</b>				
Innerwear	\$ 79,353	\$ 55,249	\$ 24,104	43.6 %
Outerwear	55,602	38,349	17,253	45.0
Hosiery	8,792	11,223	(2,431)	(21.7)
Direct to Consumer	12,308	10,569	1,739	16.5
International	15,839	16,748	(909)	(5.4)
Total segment operating profit	171,894	132,138	39,756	30.1
<b>Items not included in segment operating profit:</b>				
General corporate expenses	(15,587)	(15,160)	427	2.8
Amortization of trademarks and other intangibles	(3,625)	(2,918)	707	24.2
Total operating profit	152,682	114,060	38,622	33.9
Other expenses	(880)	(1,094)	(214)	(19.6)
Interest expense, net	(38,262)	(36,326)	1,936	5.3
Income before income tax expense	\$ 113,540	\$ 76,640	\$ 36,900	48.1 %

A significant portion of the selling, general and administrative expenses in each segment is an allocation of our consolidated selling, general and administrative expenses, however certain expenses that are specifically identifiable to a segment are charged directly to such segment. Certain prior year segment selling, general and administrative expenses have been revised to conform to the current year presentation. These changes were primarily the result of our decision to cease allocating certain compensation related expenses to the segments. Other than this change, the allocation methodology for the consolidated selling, general and administrative expenses for the third quarter of 2011 was consistent with the third quarter of 2010. Our consolidated selling, general and administrative expenses before segment allocations were \$23 million higher in the third quarter of 2011 compared to the third quarter of 2010.

**Innerwear**

	Quarter Ended		Higher (Lower)	Percent Change
	October 1, 2011	October 2, 2010		
(dollars in thousands)				
Net sales	\$ 515,263	\$ 512,486	\$ 2,777	0.5 %
Segment operating profit	79,353	55,249	24,104	43.6

Overall net sales in the Innerwear segment were higher by \$3 million in the third quarter of 2011 compared to the third quarter of 2010, primarily due to stronger net sales in our male underwear and socks product categories, partially offset by lower net sales in our intimate apparel product category.



**Table of Contents**

Net sales in the male underwear product category were 10% or \$22 million higher in the third quarter of 2011 compared to the third quarter of 2010, primarily due to net price increases, partially offset by lower unit sales volume.

Higher net sales of \$3 million or 4% in our socks product category reflect higher *Hanes* brand net sales of \$5 million, partially offset by lower *Champion* brand net sales of \$3 million in the third quarter of 2011 compared to the third quarter of 2010. The higher *Hanes* brand net sales were primarily due to net price increases, partially offset by lower unit sales volume, and the lower *Champion* brand net sales were primarily attributable to the loss of a seasonal program.

Intimate apparel net sales were \$22 million or 10% lower in the third quarter of 2011 compared to the third quarter of 2010. Our panties and bra product category net sales were both lower by \$11 million, primarily due to lower unit sales volume resulting from a softness in the intimate apparel category, partially offset by net price increases.

Innerwear segment gross profit was higher by \$28 million in the third quarter of 2011 compared to the third quarter of 2010. The higher gross profit was primarily due to higher net product pricing of \$67 million, which includes the impact of higher sales incentives of \$2 million, efficiency savings related to our supply chain optimization of \$6 million, favorable product sales mix of \$3 million, lower excess and obsolete inventory costs of \$2 million and lower other manufacturing costs of \$2 million. The lower other manufacturing costs of \$2 million includes the elimination of \$6 million of excess 2010 costs related to servicing sales growth. These factors were offset by \$29 million of higher input costs such as cotton costs related to finished goods manufactured internally in our facilities, vendor prices, wages and energy and oil-related materials and lower sales volume of \$25 million.

Innerwear segment operating profit was higher in the third quarter of 2011 compared to the third quarter of 2010 primarily as a result of higher gross profit, partially offset by higher distribution expenses of \$2 million related to higher costs to implement our price increases partially offset by the elimination of excess 2010 costs related to servicing sales growth.

**Outerwear**

	Quarter Ended			Percent Change
	October 1, 2011	October 2, 2010	Higher (Lower)	
Net sales	\$ 432,804	\$ 389,474	\$ 43,330	11.1 %
Segment operating profit	55,602	38,349	17,253	45.0

(dollars in thousands)

Outerwear segment net sales were higher by \$43 million or 11% in the third quarter of 2011 compared to the third quarter of 2010. Outerwear segment net sales include the impact of Gear for Sports, which was acquired in the fourth quarter of 2010 and contributed \$83 million or 21 percentage points of the segment's net sales growth and \$27 million of gross profit for the third quarter of 2011. The Gear for Sports business includes sales of licensed logo apparel in collegiate bookstores and other channels.

Our *Champion* brand activewear net sales were lower by \$7 million or 4% due to lower shipments to the wholesale club channel, partially offset by higher unit sales volume.

Our casualwear category net sales were lower in the retail channel by \$26 million and in the wholesale channel by \$6 million. The lower net sales in the retail casualwear channel were primarily attributable to a retailer's decision to focus our *Just My Size* brand toward more core basics versus a mix with fashion-oriented lines, partially offset by net price increases. The lower net sales in the wholesale casualwear channel of 7% were primarily due to lower unit sales volume, partially offset by net price increases.

Outerwear segment gross profit was higher by \$29 million in the third quarter of 2011 compared to the third quarter of 2010. The higher gross profit was primarily due to higher net product pricing of \$29 million, which includes the impact of lower sales incentives of \$4 million, favorable product sales mix of \$22 million, efficiency



**Table of Contents****International**

	Quarter Ended		Higher (Lower)	Percent Change
	October 1, 2011	October 2, 2010		
	(dollars in thousands)			
Net sales	\$ 150,072	\$ 133,633	\$ 16,439	12.3 %
Segment operating profit	15,839	16,748	(909)	(5.4)

Overall net sales in the International segment were higher by \$16 million or 12% in the third quarter of 2011 compared to the third quarter of 2010, primarily as a result of sales growth in Asia, Latin America and Australia, reflecting net price increases, space gains and a favorable impact of \$8 million related to foreign currency exchange rates. Excluding the impact of foreign exchange rates on currency, International segment net sales were higher by 6% in third quarter of 2011 compared to the third quarter of 2010. The favorable impact of foreign currency exchange rates in our International segment was primarily due to the strengthening of the Japanese yen, Canadian dollar and Brazilian real compared to the U.S. dollar.

During the third quarter of 2011, we experienced higher net sales, in each case excluding the impact of foreign currency exchange rates, in our activewear and intimate apparel businesses in Asia of \$7 million, in our male underwear and intimate apparel businesses in Latin America of \$6 million and in our activewear business in Australia of \$5 million, which benefited from the acquisition of the assets of the TNF Group Unit Trust from TNF Group Pty Ltd, as trustee, and of Player Sportswear Unit Trust from Player Sportswear Pty Ltd, as trustee (collectively, "TNF") in April 2011, partially offset by lower net sales in our intimate apparel business in Canada of \$7 million and in our casualwear business in Europe of \$2 million. In certain international markets we are focusing on adopting global designs for some product categories to quickly launch new styles to expand our market position. The higher net sales reflect our successful efforts to improve our strong positions.

International segment gross profit was higher by \$8 million in the third quarter of 2011 compared to the third quarter of 2010. The higher gross profit was primarily a result of higher net product pricing of \$14 million, which includes the impact of lower sales incentives of \$1 million and a favorable impact related to foreign currency exchange rates of \$3 million, partially offset by lower sales volume of \$3 million, unfavorable product sales mix of \$3 million and vendor price increases of \$2 million.

International segment operating profit was slightly lower in the third quarter of 2011 compared to the third quarter of 2010, which was primarily attributable to higher selling and other marketing expenses of \$3 million, higher distribution expenses of \$2 million, higher media related MAP expenses of \$1 million and higher non-media related MAP expenses of \$1 million, partially offset by higher gross profit. The higher selling and marketing expenses were primarily due to incremental costs resulting from the acquisition of the assets of TNF and costs associated with the growth of our business in China. The changes in foreign currency exchange rates, which are included in the impact on gross profit above, had a favorable impact on operating profit of \$1 million in the third quarter of 2011 compared to the third quarter of 2010.

**General Corporate Expenses**

General corporate expenses were flat in the third quarter of 2011 compared to the third quarter of 2010 primarily due to lower start-up and shut-down costs of \$2 million associated with the consolidation and globalization of our supply chain, offset by higher stock compensation and certain other benefit costs of \$2 million.

**Table of Contents****Condensed Consolidated Results of Operations Nine Months Ended October 1, 2011 Compared with Nine Months Ended October 2, 2010**

	Nine Months Ended			
	October 1, 2011	October 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$ 3,491,828	\$ 3,177,054	\$ 314,774	9.9 %
Cost of sales	2,284,620	2,110,943	173,677	8.2
Gross profit	1,207,208	1,066,111	141,097	13.2
Selling, general and administrative expenses	804,215	743,534	60,681	8.2
Operating profit	402,993	322,577	80,416	24.9
Other expenses	2,295	5,128	(2,833)	(55.2)
Interest expense, net	118,545	110,394	8,151	7.4
Income before income tax expense	282,153	207,055	75,098	36.3
Income tax expense	56,430	23,818	32,612	136.9
Net income	\$ 225,723	\$ 183,237	\$ 42,486	23.2 %

**Net Sales**

	Nine Months Ended			
	October 1, 2011	October 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$ 3,491,828	\$ 3,177,054	\$ 314,774	9.9 %

Consolidated net sales were higher by \$315 million or 10% in the nine months of 2011 compared to 2010. The net sales growth reflects net price increases, incremental net sales from Gear for Sports and a favorable impact from foreign currency exchange rates, partially offset by lower unit sales volume in most categories.

Our three largest segments, Innerwear, Outerwear and International, demonstrated growth in net sales, with Outerwear and International delivering high double digit sales growth. Outerwear, International and Innerwear segment net sales were higher by \$200 million (22%), \$71 million (20%) and \$49 million (3%), respectively. Hosiery and Direct to Consumer segment net sales were lower by \$4 million (4%) and \$1 million (< 1%).

**Gross Profit**

	Nine Months Ended			
	October 1, 2011	October 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
Gross profit	\$ 1,207,208	\$ 1,066,111	\$ 141,097	13.2 %

As a percent of net sales, our gross profit was 34.6% in the nine months of 2011 compared to 33.6% in the nine months of 2010. Our gross profit was higher by \$141 million in the nine months of 2011 compared to 2010. The higher gross profit was primarily attributable to higher gross profit of \$90 million from the Outerwear segment, of which \$65 million was attributable to Gear for Sports, \$31 million from the International segment, \$21 million from the Innerwear segment and \$1 million from the Direct to Consumer segment, partially offset by lower gross profit of \$9 million from the Hosiery segment. General corporate expenses within gross profit, which are not allocated to segments, were \$6 million

## Edgar Filing: Hanesbrands Inc. - Form 10-Q

lower in the nine months of 2011 compared to 2010.

Our results in the nine months of 2011 benefited primarily from net price increases of \$206 million, which is net of the impact of higher sales incentives of \$34 million, efficiency savings from our supply chain optimization of \$34 million, higher sales volumes of \$28 million, favorable product sales mix of \$22 million, a favorable impact related to foreign currency exchange rates of \$11 million, receipt of a one-time termination fee

**Table of Contents**

of \$5 million related to a royalty license agreement and lower start-up and shut-down costs of \$5 million and were negatively impacted by higher input costs of \$142 million, particularly cotton and energy and oil-related materials, higher other manufacturing costs of \$20 million, which is net of the elimination of \$3 million of excess 2010 costs related to servicing sales growth, and higher excess and obsolete inventory costs of \$7 million.

The average cotton price reflected in our results was 88 cents per pound in the nine months of 2011 compared to 62 cents per pound in the nine months of 2010. After taking into consideration the cotton costs currently included in our finished goods inventory and cotton prices we have locked in, we expect the average cost of cotton will exceed \$1.00 per pound for the full year. These amounts do not include the impact of cotton costs on the cost of sourced goods. While cotton prices have declined in recent months, we will continue to have higher prices for cotton and oil-related materials reflected in our cost of sales, which will impact our results for the remainder of 2011 and the first half of 2012.

**Selling, General and Administrative Expenses**

	<b>Nine Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Selling, general and administrative expenses	\$ 804,215	\$ 743,534	\$ 60,681	8.2 %

Our selling, general and administrative expenses were \$61 million higher in the nine months of 2011 compared to 2010. As a percent of net sales our selling, general and administrative expenses were 23.0% in the nine months of 2011 compared to 23.4% in 2010. Outerwear, International and Innerwear segment selling, general and administrative expenses were higher by \$34 million, \$19 million and \$16 million, respectively, and Hosiery and Direct to Consumer segment selling, general and administrative expenses were lower by \$4 million and \$2 million, respectively. General corporate expenses within selling, general and administrative expenses, which are not allocated to segments, were \$5 million lower in the nine months of 2011 compared to 2010.

The higher selling, general and administrative expenses were primarily attributable to higher selling and other marketing expenses of \$32 million, higher distribution expenses of \$14 million, which is net of the elimination of \$5 million of excess 2010 costs related to servicing sales growth, incremental administrative costs of \$7 million attributable to Gear for Sports, higher expenses of \$5 million as a result of opening new retail stores or expanding existing stores and higher media related MAP expenses of \$4 million, partially offset by lower pension expense of \$3 million.

**Operating Profit**

	<b>Nine Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Operating profit	\$ 402,993	\$ 322,577	\$ 80,416	24.9 %

The higher operating profit was primarily attributable to higher operating profit of \$56 million from the Outerwear segment, \$11 million from the International segment, \$5 million from the Innerwear segment and \$3 million from the Direct to Consumer segment and lower general corporate expenses of \$11 million which are not allocated to segments, partially offset by lower operating profit of \$5 million from the Hosiery segment.

**Other Expenses**

	<b>Nine Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Other expenses	\$ 2,295	\$ 5,128	\$ (2,833)	(55.2)%





**Table of Contents**

During the nine months of 2011, we incurred charges of \$2 million for funding fees associated with the sales of certain trade accounts receivable to financial institutions.

During the nine months of 2010, we wrote off unamortized debt issuance costs and incurred charges for funding fees associated with the sales of certain trade accounts receivable to financial institutions, which combined totaled \$5 million. The write-off of unamortized debt issuance costs resulted from the repayment of \$57 million of principal under the senior secured credit facility that we entered into in 2006 and amended and restated in 2009 (as amended and restated, the 2009 Senior Secured Credit Facility ) and from the reduction in borrowing capacity available under the accounts receivable securitization facility that we entered into in November 2007 (the Accounts Receivable Securitization Facility ) from \$250 million to \$150 million that we effected in recognition of our lower trade accounts receivable balance resulting from the sales of certain trade accounts receivable to a financial institution outside the Accounts Receivable Securitization Facility.

**Interest Expense, Net**

	<b>Nine Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Interest expense, net	\$ 118,545	\$ 110,394	\$ 8,151	7.4 %

Interest expense, net was higher by \$8 million in the nine months of 2011 compared to 2010. The higher interest expense was primarily attributable to higher outstanding debt balances that increased interest expense by \$12 million. In addition, the refinancing of our debt structure in November 2010, which included the sale of our \$1 billion 6.375% Senior Notes, and the amendment of the 2009 Senior Secured Credit Facility in February 2011, together with a higher LIBOR, combined caused a net decrease in interest expense in the nine months of 2011 of \$4 million.

Our weighted average interest rate on our outstanding debt was 5.62% during the nine months of 2011 compared to 5.71% in the nine months of 2010.

**Income Tax Expense**

	<b>Nine Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Income tax expense	\$ 56,430	\$ 23,818	\$ 32,612	136.9 %

Our effective income tax rate was 20% in the nine months of 2011 compared to 12% in the nine months of 2010. The higher effective income tax rate for the nine months of 2011 compared to the nine months of 2010 was primarily attributable to a one-time benefit of \$20 million in the nine months of 2010 resulting from the finalization of tax reviews and audits for amounts that were less than originally anticipated. This non-recurring income tax benefit was partially offset by a higher proportion of our earnings attributed to foreign subsidiaries than in the nine months of 2010, which are taxed at rates lower than the U.S. statutory rate.

**Net Income**

	<b>Nine Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net income	\$ 225,723	\$ 183,237	\$ 42,486	23.2 %

Net income for the nine months of 2011 was higher than the nine months of 2010 primarily due to higher operating profit of \$80 million and lower other expenses of \$3 million, partially offset by higher income tax expense of \$33 million and higher interest expense of \$8 million.



**Table of Contents****Operating Results by Business Segment Nine Months Ended October 1, 2011 Compared with Nine Months Ended October 2, 2010**

	Nine Months Ended			
	October 1, 2011	October 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
<b>Net sales:</b>				
Innerwear	\$ 1,571,277	\$ 1,522,553	\$ 48,724	3.2 %
Outerwear	1,094,888	894,653	200,235	22.4
Hosiery	113,051	117,273	(4,222)	(3.6)
Direct to Consumer	277,819	278,680	(861)	(0.3)
International	434,793	363,895	70,898	19.5
<b>Total net sales</b>	<b>\$ 3,491,828</b>	<b>\$ 3,177,054</b>	<b>\$ 314,774</b>	<b>9.9 %</b>
<b>Segment operating profit:</b>				
Innerwear	\$ 231,321	\$ 225,896	\$ 5,425	2.4 %
Outerwear	117,025	61,034	55,991	91.7
Hosiery	34,465	39,224	(4,759)	(12.1)
Direct to Consumer	22,070	18,898	3,172	16.8
International	53,614	42,462	11,152	26.3
<b>Total segment operating profit</b>	<b>458,495</b>	<b>387,514</b>	<b>70,981</b>	<b>18.3</b>
<b>Items not included in segment operating profit:</b>				
General corporate expenses	(44,641)	(55,891)	(11,250)	(20.1)
Amortization of trademarks and other intangibles	(10,861)	(9,046)	1,815	20.1
<b>Total operating profit</b>	<b>402,993</b>	<b>322,577</b>	<b>80,416</b>	<b>24.9</b>
Other expenses	(2,295)	(5,128)	(2,833)	(55.2)
Interest expense, net	(118,545)	(110,394)	8,151	7.4
<b>Income before income tax expense</b>	<b>\$ 282,153</b>	<b>\$ 207,055</b>	<b>\$ 75,098</b>	<b>36.3 %</b>

A significant portion of the selling, general and administrative expenses in each segment is an allocation of our consolidated selling, general and administrative expenses, however certain expenses that are specifically identifiable to a segment are charged directly to such segment. Certain prior year segment selling, general and administrative expenses have been revised to conform to the current year presentation. These changes were primarily the result of our decision to cease allocating certain compensation related expenses to the segments. Other than this change, the allocation methodology for the consolidated selling, general and administrative expenses for the nine months of 2011 was consistent with the nine months of 2010. Our consolidated selling, general and administrative expenses before segment allocations were \$61 million higher in the nine months of 2011 compared to 2010.

**Innerwear**

	Nine Months Ended			
	October 1, 2011	October 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$ 1,571,277	\$ 1,522,553	\$ 48,724	3.2 %
Segment operating profit	231,321	225,896	5,425	2.4

Overall net sales in the Innerwear segment were higher by \$49 million in the nine months of 2011 compared to 2010, primarily due to stronger net sales in our male underwear and socks product categories, partially offset by lower net sales in our intimate apparel product category.





**Table of Contents**

channel were impacted by a retailer's decision to focus our *Just My Size* brand toward more core basics versus a mix with fashion-oriented lines, partially offset by net price increases.

Outerwear segment gross profit was higher by \$90 million in the nine months of 2011 compared to 2010. The higher gross profit was primarily due to higher net product pricing of \$66 million, which includes the impact of lower sales incentives of \$1 million, favorable product sales mix of \$44 million, higher sales volume of \$32 million and efficiency savings related to our supply chain optimization of \$12 million, partially offset by \$55 million of higher input costs such as cotton costs related to finished goods manufactured internally in our facilities, vendor prices, wages and energy and oil-related materials and higher excess and obsolete inventory costs of \$7 million.

Outerwear segment operating profit was higher in the nine months of 2011 compared to 2010 primarily as a result of higher gross profit, partially offset by higher selling and other marketing expenses of \$23 million, incremental administrative costs of \$8 million attributable to Gear for Sports and higher distribution expenses of \$3 million related to higher sales volumes and higher costs to implement our price increases. The higher selling and other marketing expenses were primarily due to higher sales volumes and the incremental costs resulting from the acquisition of Gear for Sports.

**Hosiery**

	<b>Nine Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net sales	\$ 113,051	\$ 117,273	\$ (4,222)	(3.6)%
Segment operating profit	34,465	39,224	(4,759)	(12.1)

Net sales in the Hosiery segment declined by \$4 million or 4%, which was primarily due to lower net sales of our *L eggs* brand to mass retailers and food and drug stores and lower net sales of our *Hanes* brand in the national chain and mass merchant channels, partially offset by higher net sales of the *DKNY* brand in the wholesale club channel. The hosiery category has been in a state of consistent decline for the past decade, as the trend toward casual dress reduced demand for sheer hosiery. Generally, we manage the Hosiery segment for cash, placing an emphasis on reducing our cost structure and managing cash efficiently.

Hosiery segment gross profit was lower by \$9 million in the nine months of 2011 compared to 2010. The lower gross profit for the nine months of 2011 compared to 2010 was primarily the result of higher other manufacturing costs of \$5 million, unfavorable product sales mix of \$4 million and lower sales volume of \$3 million, partially offset by lower excess and obsolete inventory costs of \$3 million.

Hosiery segment operating profit was lower in the nine months of 2011 compared to 2010 primarily as a result of lower gross profit, partially offset by lower distribution expenses of \$2 million.

**Direct to Consumer**

	<b>Nine Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net sales	\$ 277,819	\$ 278,680	\$ (861)	(0.3)%
Segment operating profit	22,070	18,898	3,172	16.8

Direct to Consumer segment net sales were lower by \$1 million in the nine months of 2011 compared to 2010 due to lower net sales related to our Internet operations of \$4 million, partially offset by higher net sales in our outlet stores of \$3 million. Comparable store sales were 1% higher in the nine months of 2011 compared to 2010.

Direct to Consumer segment gross profit was \$1 million higher in the nine months of 2011 compared to 2010 primarily due to higher net product pricing of \$7 million, partially offset by lower sales volume of \$4 million and higher input costs of \$2 million.





**Table of Contents**

Direct to Consumer segment operating profit was higher in the nine months of 2011 compared to 2010 primarily due to higher gross profit, lower non-media related MAP expenses of \$4 million and lower distribution expenses of \$2 million, partially offset by higher expenses of \$5 million as a result of opening new retail stores or expanding existing stores.

**International**

	Nine Months Ended			Percent Change
	October 1, 2011	October 2, 2010	Higher (Lower)	
Net sales	\$ 434,793	\$ 363,895	\$ 70,898	19.5 %
Segment operating profit	53,614	42,462	11,152	26.3

Overall net sales in the International segment were higher by \$71 million or 20% in the nine months of 2011 compared to 2010, primarily as a result of sales growth in Asia, Latin America, Europe and Australia, which reflects net price increases, space gains and a favorable impact of \$26 million related to foreign currency exchange rates. Excluding the impact of foreign exchange rates on currency, International segment net sales were higher by 12% in the nine months of 2011 compared to 2010. The favorable impact of foreign currency exchange rates in our International segment was primarily due to the strengthening of the Japanese yen, Canadian dollar, Brazilian real, Euro and Mexican peso compared to the U.S. dollar.

During the nine months of 2011, we experienced higher net sales, in each case excluding the impact of foreign currency exchange rates, in our activewear, intimate apparel and male underwear businesses in Asia of \$27 million, in our hosiery, male underwear and intimate apparel businesses in Latin America of \$13 million, in our activewear business in Australia of \$11 million, which benefited from the acquisition of the assets of TNF in April 2011, and in our casualwear business in Europe of \$8 million. These higher net sales were partially offset by lower net sales in our intimate apparel business in Canada of \$11 million. The higher net sales in Asia are primarily attributable to space gains and receipt of a one-time termination fee of \$5 million related to a royalty license agreement. We subsequently entered into a new agreement with the licensee. In certain international markets we are focusing on adopting global designs for some product categories to quickly launch new styles to expand our market position. The higher net sales reflect our successful efforts to improve our strong positions.

International segment gross profit was higher by \$31 million in the nine months of 2011 compared to 2010. The higher gross profit was primarily a result of higher net product pricing of \$33 million, a favorable impact related to foreign currency exchange rates of \$11 million, receipt of a one-time termination fee of \$5 million related to a royalty license agreement and higher sales volume of \$2 million, partially offset by vendor price increases of \$16 million and unfavorable product sales mix of \$5 million.

International segment operating profit was higher in the nine months of 2011 compared to 2010, which was primarily attributable to the higher gross profit, partially offset by higher selling and other marketing expenses of \$8 million, higher distribution expenses of \$6 million, higher media related MAP expenses of \$2 million and higher non-media related MAP expenses of \$2 million. The higher selling and marketing expenses were primarily due to incremental costs resulting from the acquisition of the assets of TNF and costs associated with the growth of our business in China. The changes in foreign currency exchange rates, which are included in the impact on gross profit above, had a favorable impact on operating profit of \$4 million in the nine months of 2011 compared to 2010.

**General Corporate Expenses**

General corporate expenses were lower in the nine months of 2011 compared to 2010 primarily due to lower start-up and shut-down costs of \$5 million associated with the consolidation and globalization of our supply chain, lower pension expense of \$3 million and lower accelerated depreciation of \$2 million.

---

## **Table of Contents**

### **Liquidity and Capital Resources**

#### ***Trends and Uncertainties Affecting Liquidity***

Our primary sources of liquidity are cash generated by operations and availability under the \$600 million revolving credit facility (the Revolving Loan Facility ) under the 2009 Senior Secured Credit Facility, the Accounts Receivable Securitization Facility and our international loan facilities. At October 1, 2011, we had \$572 million of borrowing availability under our Revolving Loan Facility (after taking into account outstanding letters of credit), \$72 million of borrowing availability under our international loan facilities, \$50 million of borrowing availability under our Accounts Receivable Securitization Facility and \$48 million in cash and cash equivalents. We currently believe that our existing cash balances and cash generated by operations, together with our available credit capacity, will enable us to comply with the terms of our indebtedness and meet foreseeable liquidity requirements.

The following have impacted or are expected to impact liquidity:

we have principal and interest obligations under our debt;

we expect to continue to invest in efforts to improve operating efficiencies and lower costs;

we expect to continue to ramp up and optimize our lower-cost manufacturing capacity in Asia, Central America and the Caribbean Basin and enhance efficiency;

we may selectively pursue strategic acquisitions;

we could increase or decrease the portion of the income of our foreign subsidiaries that is expected to be remitted to the United States, which could significantly impact our effective income tax rate; and

our board of directors has authorized the repurchase of up to 10 million shares of our stock in the open market over the next few years (2.8 million of which we have repurchased as of October 1, 2011 at a cost of \$75 million), although we may choose not to repurchase any stock and instead focus on other uses of cash such as the repayment of our debt.

We expect to be able to manage our working capital levels and capital expenditure amounts to maintain sufficient levels of liquidity. Factors that could help us in these efforts include higher sales volume and the realization of additional cost benefits from previous restructuring and related actions. We have restructured our supply chain over the past four years to create more efficient production clusters that utilize fewer, larger facilities and to balance production capability between the Western Hemisphere and Asia.

#### ***Cash Requirements for Our Business***

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

Our working capital was higher in nine months of 2011 compared to nine months of 2010, primarily in the form of inventory. In 2011 we expect working capital to be higher than 2010 to support sales growth, price increases and cost inflation. Inventory as of the end of the third quarter of 2011 was \$404 million higher than year-end 2010 inventory primarily due to higher input costs such as cotton and oil-related materials. Year-end 2011 inventory is expected to be approximately \$250 million to \$300 million higher than year-end 2010 as a result of high inflationary costs.

## Edgar Filing: Hanesbrands Inc. - Form 10-Q

As a result of the cost inflation and higher product pricing, we expect a negative impact on our cash flow from higher working capital, in particular higher accounts receivable and inventories, partially offset by higher accounts payable. We typically use cash for the first half of the year and generate most of our cash flow in the second half of the year.

**Table of Contents**

Capital spending has varied significantly from year to year as we executed our supply chain consolidation and globalization strategy and the integration and consolidation of our technology systems. We spent \$69 million on gross capital expenditures during the nine months of 2011, which were offset by cash proceeds of \$13 million primarily from a sale-leaseback transaction. We expect to continue to invest in our infrastructure during 2011 with net capital expenditures for the year approximating \$90 million.

We expect, based on a calculation by our actuary, to make required cash contributions of \$12 million to the U.S. qualified pension plan in 2011, of which we have made \$6 million in the nine months of 2011. We may elect to make voluntary contributions, which are not expected to be significant in 2011.

There have been no other significant changes in the cash requirements for our business from those described in our Annual Report on Form 10-K for the year ended January 1, 2011.

**Sources and Uses of Our Cash**

The information presented below regarding the sources and uses of our cash flows for the nine months ended October 1, 2011 and October 2, 2010 was derived from our consolidated financial statements.

	<b>Nine Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	<b>(dollars in thousands)</b>	
Operating activities	\$ (26,874)	\$ (37,074)
Investing activities	(65,239)	(33,620)
Financing activities	97,492	107,217
Effect of changes in foreign currency exchange rates on cash	(1,053)	30
Increase (decrease) in cash and cash equivalents	4,326	36,553
Cash and cash equivalents at beginning of year	43,671	38,943
Cash and cash equivalents at end of period	\$ 47,997	\$ 75,496

**Operating Activities**

Net cash used in operating activities was \$27 million in the nine months of 2011 compared to \$37 million in the nine months of 2010. The net decrease in cash used in operating activities of \$10 million for the nine months of 2011 compared to the nine months of 2010 is primarily attributable to higher net income, partially offset by higher uses of working capital.

Net inventory increased \$349 million from October 2, 2010 primarily due to \$259 million of higher inflationary costs, \$50 million related to Gear for Sports and \$40 million of incremental units to support sales growth. As expected, inventory units on hand decreased from July 1, 2011 to October 1, 2011, however, as a result of high inflationary costs, our inventory dollars increased during the third quarter of 2011. Net inventory increased \$404 million from January 1, 2011 primarily due to \$265 million of higher inflationary costs and \$139 million of incremental units due to planned build to support our seasonally stronger second half of the year.

Accounts receivable was \$86 million higher compared to January 1, 2011 primarily due to higher sales volumes and higher net product pricing we have implemented in response to systemic cost inflation, partially offset by the timing of collections.

**Investing Activities**

Net cash used in investing activities was \$65 million in the nine months of 2011 compared to \$34 million in the nine months of 2010. The net increase in cash used in investing activities of \$31 million in the nine months of 2011 compared to the nine months of 2010 was primarily the result of lower proceeds from sales of assets of \$33 million and cash used for the acquisition of the assets of TNF in April 2011 of \$9 million, partially offset by lower gross capital expenditures of \$10 million. During the nine months of 2011, proceeds from sales of assets were \$13 million, primarily resulting from a sale-leaseback transaction involving one distribution center.



---

**Table of Contents**

*Financing Activities*

Net cash provided by financing activities was \$97 million in the nine months of 2011 compared to \$107 million in the nine months of 2010. The lower net cash from financing activities of \$10 million in the nine months of 2011 compared to the nine months of 2010 was primarily the result of higher net repayments on the Revolving Loan Facility of \$124 million, partially offset by higher net borrowings of \$35 million on the Accounts Receivable Securitization Facility and higher net borrowings on notes payable of \$7 million. In addition, we made \$59 million in repayments of debt under the 2009 Senior Secured Credit Facility in the nine months of 2010 that did not recur in the nine months of 2011. We also received higher proceeds from stock options exercised of \$13 million, partially offset by higher payments of \$2 million in the nine months of 2011 to amend our credit facilities that did not occur in the nine months of 2010.

*Cash and Cash Equivalents*

As of October 1, 2011 and January 1, 2011, cash and cash equivalents were \$48 million and \$44 million, respectively. The higher cash and cash equivalents as of October 1, 2011 was primarily the result of net cash provided by financing activities of \$97 million, partially offset by net cash used in investing activities of \$65 million and net cash used in operating activities of \$27 million.

*Financing Arrangements*

In February 2011, we 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 we 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 that we are 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, we will be required to maintain a maximum ratio of senior secured indebtedness to EBITDA, 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.

In January 2011, we amended the Accounts Receivable Securitization Facility to provide for two of the subsidiaries acquired by us in the Gear for Sports acquisition, in addition to Hanesbrands, 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, we are required to maintain the financial ratios and other financial covenants contained from time to time in the 2009 Senior Secured Credit 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.

We 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

---

## **Table of Contents**

Securitization Facility, which was initially \$250 million and which we reduced to \$150 million effective February 2010, was increased to \$225 million. 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.

As of October 1, 2011, we were in compliance with all financial covenants under our credit facilities. We expect to maintain compliance with our covenants for the foreseeable future, however economic conditions or the occurrence of events discussed under **Risk Factors** in our Annual Report on Form 10-K or other SEC filings could cause noncompliance.

There have been no other significant changes in the financing arrangements from those described in our Annual Report on Form 10-K for the year ended January 1, 2011.

### **Critical Accounting Policies and Estimates**

We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial condition in conformity with accounting principles generally accepted in the United States. We apply these accounting policies in a consistent manner. Our significant accounting policies are discussed in Note 2, titled **Summary of Significant Accounting Policies**, to our financial statements included in our Annual Report on Form 10-K for the year ended January 1, 2011.

The application of critical accounting policies requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. These estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. We evaluate these estimates and assumptions on an ongoing basis and may retain outside consultants to assist in our evaluation. If actual results ultimately differ from previous estimates, the revisions are included in results of operations in the period in which the actual amounts become known. The critical accounting policies that involve the most significant management judgments and estimates used in preparation of our financial statements, or are the most sensitive to change from outside factors, are discussed in **Management's Discussion and Analysis of Financial Condition and Results of Operations** in our Annual Report on Form 10-K for the year ended January 1, 2011. There have been no material changes in these policies during the quarter ended October 1, 2011.

### **Recently Issued Accounting Pronouncements**

#### ***Fair Value Measurements***

In May 2011, the Financial Accounting Standards Board (the **FASB**) issued new accounting rules related to fair value measurements. The new accounting rules clarify some existing concepts, eliminate wording differences between accounting principles generally accepted in the United States of America (**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 us beginning after December 15, 2011. We do not expect the adoption of the new accounting rules to have a material effect on our financial condition, results of operations or cash flows.

#### ***Presentation of Comprehensive Income***

In June 2011, the FASB issued new accounting rules that 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 us beginning after December 15, 2011. We do not expect the adoption of the new accounting rules to have a material effect on our financial condition, results of operations or cash flows.

**Table of Contents**

***Goodwill Impairment Testing***

In September 2011, the FASB issued new accounting rules related to testing goodwill for impairment. The new accounting rules permit an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test prescribed under current accounting rules. Otherwise, the two-step goodwill impairment test is not required. The new accounting rules will be effective for us beginning after December 15, 2011. We do not expect the adoption of the new accounting rules to have a material effect on our financial condition, results of operations or cash flows.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

There have been no significant changes in our market risk exposures from those described in Item 7A of our Annual Report on Form 10-K for the year ended January 1, 2011.

**Item 4. *Controls and Procedures***

As required by Exchange Act Rule 13a-15(b), our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

In connection with the evaluation required by Exchange Act Rule 13a-15(d), our management, including our Chief Executive Officer and Chief Financial Officer, concluded that no changes in our internal control over financial reporting occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents**

**PART II**

**Item 1. *Legal Proceedings***

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

**Item 1A. *Risk Factors***

No updates to report.

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

None.

**Item 3. *Defaults Upon Senior Securities***

None.

**Item 4. *(Removed and Reserved)***

**Item 5. *Other Information***

None.

**Item 6. *Exhibits***

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

**Table of Contents**

**SIGNATURES**

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

HANESBRANDS INC.

By: /s/ Richard D. Moss  
Richard D. Moss  
Chief Financial Officer

Date: November 3, 2011

**Table of Contents****INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Articles of Amendment and Restatement of Hanesbrands Inc. (incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).
3.2	Articles Supplementary (Junior Participating Preferred Stock, Series A) (incorporated by reference from Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).
3.3	Amended and Restated Bylaws of Hanesbrands Inc. (incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2008).
3.4	Certificate of Formation of BA International, L.L.C. (incorporated by reference from Exhibit 3.4 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.5	Limited Liability Company Agreement of BA International, L.L.C. (incorporated by reference from Exhibit 3.5 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.6	Certificate of Incorporation of Caribesock, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.6 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.7	Bylaws of Caribesock, Inc. (incorporated by reference from Exhibit 3.7 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.8	Certificate of Incorporation of Caribetex, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.8 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.9	Bylaws of Caribetex, Inc. (incorporated by reference from Exhibit 3.9 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.10	Certificate of Formation of CASA International, LLC (incorporated by reference from Exhibit 3.10 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.11	Limited Liability Company Agreement of CASA International, LLC (incorporated by reference from Exhibit 3.11 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.12	Amended and Restated Certificate of Incorporation of CC Products, Inc. (incorporated by reference from Exhibit 3.50 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.13	Amended and Restated Bylaws of CC Products, Inc. (incorporated by reference from Exhibit 3.51 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.14	Certificate of Incorporation of Ceibena Del, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.12 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
3.15	Bylaws of Ceibena Del, Inc. (incorporated by reference from Exhibit 3.13 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.16	Articles of Incorporation of Event 1, Inc. (incorporated by reference from Exhibit 3.52 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.17	Amended and Restated By-Laws of Event 1, Inc. (incorporated by reference from Exhibit 3.53 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.18	Amended Certificate of Incorporation of GearCo, Inc. (incorporated by reference from Exhibit 3.44 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.19	Amended and Restated Bylaws of GearCo, Inc. (incorporated by reference from Exhibit 3.45 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.20	Third Amended and Restated Certificate of Incorporation of GFSI Holdings, Inc. (incorporated by reference from Exhibit 3.46 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.21	Amended and Restated Bylaws of GFSI Holdings, Inc. (incorporated by reference from Exhibit 3.47 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.22	Amended and Restated Certificate of Incorporation of GFSI, Inc. (incorporated by reference from Exhibit 3.48 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.23	Amended and Restated Bylaws of GFSI, Inc. (incorporated by reference from Exhibit 3.49 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.24	Certificate of Formation of Hanes Menswear, LLC, together with Certificate of Conversion from a Corporation to a Limited Liability Company Pursuant to Section 18-214 of the Limited Liability Company Act and Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.14 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.25	Limited Liability Company Agreement of Hanes Menswear, LLC (incorporated by reference from Exhibit 3.15 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.26	Certificate of Incorporation of HPR, Inc., together with Certificate of Merger of Hanes Puerto Rico, Inc. into HPR, Inc. (now known as Hanes Puerto Rico, Inc.) (incorporated by reference from Exhibit 3.16 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.27	Bylaws of Hanes Puerto Rico, Inc. (incorporated by reference from Exhibit 3.17 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.28	Articles of Organization of Sara Lee Direct, LLC, together with Articles of Amendment reflecting the change of the entity's name to Hanesbrands Direct, LLC (incorporated by reference from Exhibit 3.18 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
3.29	Limited Liability Company Agreement of Sara Lee Direct, LLC (now known as Hanesbrands Direct, LLC) (incorporated by reference from Exhibit 3.19 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.30	Certificate of Incorporation of Sara Lee Distribution, Inc., together with Certificate of Amendment of Certificate of Incorporation of Sara Lee Distribution, Inc. reflecting the change of the entity's name to Hanesbrands Distribution, Inc. (incorporated by reference from Exhibit 3.20 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.31	Bylaws of Sara Lee Distribution, Inc. (now known as Hanesbrands Distribution, Inc.) (incorporated by reference from Exhibit 3.21 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.32	Certificate of Formation of HBI Branded Apparel Enterprises, LLC (incorporated by reference from Exhibit 3.22 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.33	Operating Agreement of HBI Branded Apparel Enterprises, LLC (incorporated by reference from Exhibit 3.23 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.34	Certificate of Incorporation of HBI Branded Apparel Limited, Inc. (incorporated by reference from Exhibit 3.24 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.35	Bylaws of HBI Branded Apparel Limited, Inc. (incorporated by reference from Exhibit 3.25 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.36	Certificate of Formation of Hbi International, LLC (incorporated by reference from Exhibit 3.26 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.37	Limited Liability Company Agreement of Hbi International, LLC (incorporated by reference from Exhibit 3.27 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.38	Certificate of Formation of SL Sourcing, LLC, together with Certificate of Amendment to the Certificate of Formation of SL Sourcing, LLC reflecting the change of the entity's name to HBI Sourcing, LLC (incorporated by reference from Exhibit 3.28 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.39	Limited Liability Company Agreement of SL Sourcing, LLC (now known as HBI Sourcing, LLC) (incorporated by reference from Exhibit 3.29 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.40	Certificate of Formation of Inner Self LLC (incorporated by reference from Exhibit 3.30 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.41	Limited Liability Company Agreement of Inner Self LLC (incorporated by reference from Exhibit 3.31 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.42	Certificate of Formation of Jasper-Costa Rica, L.L.C. (incorporated by reference from Exhibit 3.32 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
3.43	Amended and Restated Limited Liability Company Agreement of Jasper-Costa Rica, L.L.C. (incorporated by reference from Exhibit 3.33 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.44	Certificate of Formation of Playtex Dorado, LLC, together with Certificate of Conversion from a Corporation to a Limited Liability Company Pursuant to Section 18-214 of the Limited Liability Company Act (incorporated by reference from Exhibit 3.36 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.45	Amended and Restated Limited Liability Company Agreement of Playtex Dorado, LLC (incorporated by reference from Exhibit 3.37 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.46	Certificate of Incorporation of Playtex Industries, Inc. (incorporated by reference from Exhibit 3.38 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.47	Bylaws of Playtex Industries, Inc. (incorporated by reference from Exhibit 3.39 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.48	Certificate of Formation of Seamless Textiles, LLC, together with Certificate of Conversion from a Corporation to a Limited Liability Company Pursuant to Section 18-214 of the Limited Liability Company Act (incorporated by reference from Exhibit 3.40 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.49	Limited Liability Company Agreement of Seamless Textiles, LLC (incorporated by reference from Exhibit 3.41 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.50	Certificate of Incorporation of UPCR, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.42 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.51	Bylaws of UPCR, Inc. (incorporated by reference from Exhibit 3.43 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.52	Certificate of Incorporation of UPEL, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.44 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.53	Bylaws of UPEL, Inc. (incorporated by reference from Exhibit 3.45 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
10.1	Retention Plan Award Agreement between the Registrant and Richard D. Moss dated June 28, 2011.*
10.2	Severance/Change in Control Agreement dated November 3, 2011 between the Registrant and Richard D. Moss.*
31.1	Certification of Richard A. Noll, Chief Executive Officer.
31.2	Certification of Richard D. Moss, Chief Financial Officer.
32.1	Section 1350 Certification of Richard A. Noll, Chief Executive Officer.
32.2	Section 1350 Certification of Richard D. Moss, Chief Financial Officer.

**Table of Contents**

**Exhibit**

<b>Number</b>	<b>Description</b>
101.INS XBRL	Instance Document**
101.SCH XBRL	Taxonomy Extension Schema Document**
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document**
101.LAB XBRL	Taxonomy Extension Label Linkbase Document**
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document**
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document**

\* Agreement relates to executive compensation.

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.