Hanesbrands Inc.
Form 10-Q
May 11, 2009

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended April 4, 2009
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-32891

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

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

(336) 519-4400
(Registrant s telephone number including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

As of May 6, 2009, there were 94,700,171 shares of the registrant s common stock outstanding.

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Trademarks, Trade Names and Service Marks

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that 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* and *Duofold* marks, which may be registered in the United States and other jurisdictions. We do not own any trademark, trade name or service mark of any other company appearing in this Quarterly Report on Form 10-Q.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as may, believe, will, expect, project, estimate, intend, anticipate, plan, continue or similar e particular, information appearing under Management s Discussion and Analysis of Financial Condition and Results of Operations includes 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 3, 2009, 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 3, 2009, particularly under the caption Risk Factors. We undertake no obligation to update or revise forward-looking statements 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 special reports, proxy statements and other information with the SEC. You can inspect, read and copy these reports, proxy statements and other information at the public reference facilities the SEC maintains at 100 F Street, N.E., Washington, D.C. 20549.

We make available free of charge at www.hanesbrands.com (in the Investors section) copies of materials we file with, or furnish to, the SEC. You can also obtain copies of these materials at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Web site at www.sec.gov that makes available reports, proxy statements and other information regarding issuers that file electronically with it. By referring to our Web site, www.hanesbrands.com, we do not incorporate our Web site or its contents into this Quarterly Report on Form 10-Q.

PART I

Item 1. *Financial Statements*

HANESBRANDS INC.

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

	Quarter Ended	
	April 4, 2009	March 29, 2008
Net sales	$ 857,841	$ 987,847
Cost of sales	599,965	642,883
Gross profit	257,876	344,964
Selling, general and administrative expenses	223,238	254,612
Restructuring	18,671	2,558
Operating profit	15,967	87,794
Other expenses	3,946	
Interest expense, net	36,800	40,394
Income (loss) before income tax expense (benefit)	(24,779)	47,400
Income tax expense (benefit)	(5,451)	11,376
Net income (loss)	$ (19,328)	$ 36,024
Earnings (loss) per share:		
Basic	$ (0.20)	$ 0.38
Diluted	$ (0.20)	$ 0.38
Weighted average shares outstanding:		
Basic	94,493	94,344
Diluted	94,493	95,610

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

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

	April 4, 2009	January 3, 2009
Assets		
Cash and cash equivalents	$ 31,669	$ 67,342
Trade accounts receivable less allowances of $21,261 at April 4, 2009 and $21,897 at January 3, 2009	424,759	404,930
Inventories	1,301,242	1,290,530
Deferred tax assets and other current assets	339,291	347,523
Total current assets	2,096,961	2,110,325
Property, net	620,786	588,189
Trademarks and other identifiable intangibles, net	144,528	147,443
Goodwill	322,002	322,002
Deferred tax assets and other noncurrent assets	380,667	366,090
Total assets	$ 3,564,944	$ 3,534,049
Liabilities and Stockholders Equity		
Accounts payable	$ 289,545	$ 325,518
Accrued liabilities	291,064	315,392
Notes payable	70,528	61,734
Accounts receivable securitization facility	223,912	45,640
Total current liabilities	875,049	748,284
Long-term debt	2,042,930	2,130,907
Other noncurrent liabilities	461,858	469,703
Total liabilities	3,379,837	3,348,894
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 94,693,396 at April 4, 2009 and 93,520,132 at January 3, 2009	947	935
Additional paid-in capital	263,446	248,167
Retained earnings	198,195	217,522
Accumulated other comprehensive loss	(277,481)	(281,469)

Total stockholders equity	185,107	185,155
Total liabilities and stockholders equity	$ 3,564,944	$ 3,534,049

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

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

	Quarter Ended	
	April 4, 2009	March 29, 2008
Operating activities:		
Net income (loss)	$ (19,328)	$ 36,024
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	20,961	23,591
Amortization of intangibles	3,089	2,673
Restructuring	(484)	(1,119)
Charges incurred for amendments of credit facilities	3,946	
Amortization of debt issuance costs	1,869	1,506
Stock compensation expense	9,563	6,918
Deferred taxes and other	(2,798)	(2,871)
Changes in assets and liabilities:		
Accounts receivable	(21,681)	36,183
Inventories	(13,178)	(103,597)
Other assets	5,586	(7,061)
Accounts payable	(33,985)	18,315
Accrued liabilities and other	(11,536)	(30,043)
Net cash used in operating activities	(57,976)	(19,481)
Investing activities:		
Purchases of property, plant and equipment	(55,733)	(27,580)
Proceeds from sales of assets	467	7,070
Net cash used in investing activities	(55,266)	(20,510)
Financing activities:		
Borrowings on notes payable	549,434	17,747
Repayments on notes payable	(540,427)	(23,295)
Payments to amend credit facilities	(20,712)	
Borrowings on revolving loan facility	571,500	
Repayments on revolving loan facility	(462,500)	
Borrowings on accounts receivable securitization facility	79,000	19,220
Repayments on accounts receivable securitization facility	(97,705)	(19,220)
Proceeds from stock options exercised		339
Stock repurchases		(8,277)
Other	(320)	(254)

Net cash provided by (used in) financing activities	78,270	(13,740)
Effect of changes in foreign exchange rates on cash	(701)	288
Decrease in cash and cash equivalents	(35,673)	(53,443)
Cash and cash equivalents at beginning of year	67,342	174,236
Cash and cash equivalents at end of period	$ 31,669	$ 120,793

See accompanying notes to Condensed Consolidated Financial Statements

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 Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for the Company s financial assets and liabilities on December 30, 2007. The FASB approved a one-year deferral of the adoption of SFAS 157 as it relates to non-financial assets and liabilities with the issuance in February 2008 of FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, as a result of which implementation by the Company is now required on January 4, 2009. The partial adoption of SFAS 157 in the first quarter ended March 29, 2008 for financial assets and liabilities and the first quarter ended April 4, 2009 for non-financial assets and liabilities had no material impact on the financial condition, results of operations or cash flows of the Company, but resulted in certain additional disclosures reflected in Note 9.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability and transparency of the financial information that a company provides in its consolidated financial statements. SFAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the

company s equity. It also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; that changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, that any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. The Company adopted SFAS 160 in the first quarter ended April 4, 2009. The adoption of SFAS 160 did not have a material impact on the Company s financial condition, results of operations or cash flows.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
(dollars and shares in thousands, except per share data)
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Disclosures About Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 expands the disclosure requirements of FASB Statement No. 133 about an entity s derivative instruments and hedging activities. The Company adopted SFAS 161 in the first quarter ended April 4, 2009. The adoption of SFAS 161 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.

Employers Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP 132(R)-1). FSP 132(R)-1 expands the disclosure requirements of FASB Statement No. 132(R) to include more detailed disclosures about an employers plan assets, including employers investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets, similar to the disclosure requirements of SFAS 157. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. Since FSP 132(R)-1 only requires additional disclosures, adoption of the statement is not expected to have a material impact on the Company s financial condition, results of operations or cash flows.

Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued Staff Position No. 107-1 and Accounting Principal Board Opinion No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1). FSP 107-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This statement also amends Accounting Principal Board Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. FSP 107-1 is effective for interim and annual periods ending after June 15, 2009. Since FSP 107-1 only requires additional disclosures, adoption of the statement is not expected to have a material impact 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 (loss) by the number of weighted average shares of common stock outstanding during the quarters ended April 4, 2009 and March 29, 2008. 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 for the quarters ended April 4, 2009 and March 29, 2008 is as follows:

	Quarter Ended	
	April 4,	**March 29,**

	2009	2008
Basic weighted average shares	94,493	94,344
Effect of potentially dilutive securities:		
Stock options		298
Restricted stock units		966
Employee stock purchase plan and other		2
Diluted weighted average shares	94,493	95,610

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
(dollars and shares in thousands, except per share data)
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Options to purchase 5,930 and 2,478 shares of common stock and 1,347 and 0 restricted stock units were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive for the quarters ended April 4, 2009 and March 29, 2008, respectively. Because the Company reported a net loss for the quarter ended April 4, 2009, the restricted stock units and stock options excluded from the computation of diluted loss per share consisted of all outstanding restricted stock units and stock options, as their effect would have been anti-dilutive.

(4) Restructuring

Since becoming an independent company, the Company has undertaken a variety of restructuring efforts in connection with its consolidation and globalization strategy designed to improve operating efficiencies and lower costs. As a result of this strategy, the Company expects to incur approximately $250,000 in restructuring and related charges over the three year period following the spin off from Sara Lee Corporation (Sara Lee) on September 5, 2006, of which approximately half is expected to be noncash. As of April 4, 2009, the Company has recognized approximately $234,000 and announced approximately $224,000 in restructuring and related charges related to this strategy since September 5, 2006. Of the amounts recognized, approximately $87,000 relates to accelerated depreciation of buildings and equipment for facilities that have been or will be closed, approximately $85,000 relates to employee termination and other benefits, approximately $25,000 relates to lease termination and other costs, approximately $22,000 relates to write-offs of stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate, approximately $10,000 relates to impairments of fixed assets and approximately $5,000 relates to other exit costs such as equipment moving costs. Accelerated depreciation related to the Company s manufacturing facilities and distribution centers that have been or will be closed is reflected in the Cost of sales and Selling, general and administrative expenses lines of the Condensed Consolidated Statements of Income. The write-offs of stranded raw materials and work in process inventory are reflected in the Cost of sales line of the Condensed Consolidated Statements of Income.

The reported results for the quarters ended April 4, 2009 and March 28, 2008 reflect amounts recognized for restructuring actions, including the impact of certain actions that were completed for amounts more favorable than previously estimated. The impact of restructuring efforts on income (loss) before income tax expense (benefit) is summarized as follows:

	Quarter Ended	
	April 4, 2009	March 29, 2008
Restructuring programs:		
Year ended January 2, 2010 restructuring actions	$ 8,655	$
Year ended January 3, 2009 restructuring actions	13,055	2,942
Year ended December 29, 2007 restructuring actions	2,545	2,856
Six months ended December 30, 2006 and prior restructuring actions	172	(39)
	$ 24,427	$ 5,759

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HANESBRANDS INC.

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

The following table illustrates where the costs associated with these actions are recognized in the Condensed Consolidated Statements of Income:

	Quarter Ended	
	April 4, 2009	March 29, 2008
Cost of sales	$ 5,586	$ 2,558
Selling, general and administrative expenses	170	643
Restructuring	18,671	2,558
	$ 24,427	$ 5,759

Components of the restructuring actions are as follows:

	Quarter Ended	
	April 4, 2009	March 29, 2008
Accelerated depreciation	$ 2,668	$ 3,201
Inventory write-offs	3,088	
Employee termination and other benefits	5,641	2,558
Noncancelable leases, other contractual obligations and other	13,030	
	$ 24,427	$ 5,759

Rollforward of accrued restructuring is as follows:

	Quarter Ended April 4, 2009
Beginning accrual	$ 21,793
Restructuring expenses	19,159
Cash payments	(17,113)
Adjustments to restructuring expenses	(878)

Ending accrual	$	22,961

The accrual balance as of April 4, 2009 is comprised of $20,814 in current accrued liabilities and $2,147 in other noncurrent liabilities. The $20,814 in current accrued liabilities consists of $12,443 for employee termination and other benefits and $8,371 for noncancelable leases and other contractual obligations. The $2,147 in other noncurrent liabilities is related to noncancelable leases and other contractual obligations.

Adjustments to previous estimates resulted from actual costs to settle obligations being lower than expected. The adjustments were reflected in the Restructuring line of the Condensed Consolidated Statements of Income.

Year Ended January 2, 2010 Actions

During the first quarter ended April 4, 2009, the Company approved actions to close three manufacturing facilities and one distribution center in the Dominican Republic, Honduras, the United States and Canada, and eliminate an aggregate of approximately 2,600 positions in those countries and El Salvador. The production capacity represented by the manufacturing facilities has been relocated to lower cost locations in Asia, Central America and the Caribbean Basin. The distribution capacity has been relocated to the Company s West Coast distribution center in California in order to expand capacity for goods the Company sources from Asia. In addition, approximately 50 management and administrative positions were eliminated, with the majority of

HANESBRANDS INC.

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

these positions based in the United States. The Company recorded charges of $8,655 in the quarter ended April 4, 2009. In the first quarter ended April 4, 2009, the Company recognized $6,264 for employee termination and other benefits recognized in accordance with benefit plans previously communicated to the affected employee group, $1,362 for noncancelable lease and other contractual obligations related to the closure of certain manufacturing facilities, $843 for write-offs of stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate related to the closure of certain manufacturing facilities, $129 for other exit costs and $57 for accelerated depreciation of buildings and equipment. These charges are reflected in the Restructuring and Cost of sales lines of the Condensed Consolidated Statement of Income. All actions are expected to be completed within a 12-month period.

Year Ended January 3, 2009 Actions

During the first quarter ended April 4, 2009, the Company recognized additional charges associated with facility closures announced in the year ended January 3, 2009, resulting in an increase of $13,055 to loss before income tax benefit. The company recognized charges of $7,943 for lease termination costs associated with plant closures announced in the year ended January 3, 2009, $2,867 for other exit costs and $2,245 for write-offs of stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate related to the closure of certain manufacturing facilities. These charges are reflected in the Restructuring and Cost of sales lines of the Condensed Consolidated Statement of Income.

(5) Inventories

Inventories consisted of the following:

	April 4, 2009	January 3, 2009
Raw materials	$ 168,663	$ 172,494
Work in process	105,982	116,800
Finished goods	1,026,597	1,001,236
	$ 1,301,242	$ 1,290,530

(6) 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 ended April 4, 2009 are as follows:

	Allowance for Doubtful Accounts	Allowance for Chargebacks and Other Deductions	Total
Balance at January 3, 2009:	$ 12,555	$ 9,342	$ 21,897
Charged to expenses	1,301	(481)	820
Deductions and write-offs	(634)	(822)	(1,456)
Balance at April 4, 2009:	$ 13,222	$ 8,039	$ 21,261

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 receivables and allowed customer chargebacks and deductions against gross accounts receivable.

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HANESBRANDS INC.

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

(7) Debt

The Company had the following debt at April 4, 2009 and January 3, 2009:

	Interest Rate as of April 4, 2009	Principal Amount April 4, 2009	Principal Amount January 3, 2009	Maturity Date
Senior Secured Credit Facility:				
Term A	5.66%	$ 139,000	$ 139,000	September 2012
Term B	5.98%	851,250	851,250	September 2013
Revolving Loan Facility	5.58%	109,000		September 2011
Second Lien Credit Facility	4.91%	450,000	450,000	March 2014
Floating Rate Senior Notes	5.70%	493,680	493,680	December 2014
Accounts Receivable Securitization Facility	4.06%	223,912	242,617	March 2010
		2,266,842	2,176,547	
Less current maturities		223,912	45,640	
		$ 2,042,930	$ 2,130,907	

As of April 4, 2009, the Company had $109,000 outstanding under the Senior Secured Credit Facility s $500,000 Revolving Loan Facility and $32,619 of standby and trade letters of credit issued and outstanding under this facility.

Availability of funding under the accounts receivable securitization facility depends primarily upon the eligible outstanding receivables balance. The total amount of receivables used as collateral for the accounts receivable securitization facility was $357,218 and $331,470 at April 4, 2009 and January 3, 2009, respectively, and is reported on the Company s Condensed Consolidated Balance Sheets in Trade accounts receivable, less allowances.

On March 10, 2009, the Company entered into a Third Amendment (the Third Amendment) to the Senior Secured Credit Facility dated as of September 5, 2006. Pursuant to the Third Amendment, the ratio of debt to EBITDA (earnings before income taxes, depreciation expense and amortization) for the preceding four quarters, or leverage ratio, was increased from 3.75 to 1 in the first quarter of 2009 to 4.25 to 1, from 3.5 to 1 in the second quarter of 2009 to 4.2 to 1, from 3.25 to 1 in the third quarter of 2009 to 3.95 to 1, and from 3.0 to 1 in the fourth quarter of 2009 to 3.6 to 1. After 2009, the leverage ratio will decrease from 3.6 to 1 until it reaches 3.0 to 1 in the third quarter of 2011. In addition, pursuant to the Third Amendment, the ratio of EBITDA for the preceding four quarters to consolidated interest expense for such period, or interest coverage ratio, was decreased from 3.0 to 1 in the second and third quarters of 2009 to 2.5 to 1 and from 3.25 to 1 in the fourth quarter of 2009 to 2.5 to 1. After 2009, the interest coverage ratio will increase from 2.5 to 1 until it reaches 3.25 to 1 in the third quarter of 2011.

At the Company s option, borrowings under the Senior Secured Credit Facility may be maintained from time to time as (a) Base Rate loans, which bear interest at the higher of (i) 1/2 of 1% in excess of the federal funds rate and (ii) the rate published in the Wall Street Journal as the prime rate (or equivalent), in each case in effect from time to time, plus the applicable margin in effect from time to time, or (b) LIBOR-based loans, which bear interest at the LIBO Rate (as defined in the Senior Secured Credit Facility and adjusted for maximum reserves), for the respective interest period plus the applicable margin in effect from

HANESBRANDS INC.

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

time to time. Also pursuant to the Third Amendment, the applicable margins with respect to the Senior Secured Credit Facility were increased by 300 basis points.

The Third Amendment also provides for certain other amendments to the Senior Secured Credit Facility, including increasing the percentage of Excess Cash Flow as calculated pursuant to the Senior Secured Credit Facility, which is used to determine whether, and the extent to which, the Company is required in certain circumstances to make certain mandatory prepayments. The Company paid $20,567 in debt amendment fees in connection with entering into the Third Amendment of which $16,789 will be amortized over the respective term of the Senior Secured Credit Facility.

On March 16, 2009, the Company and HBI Receivables LLC (HBI Receivables), a wholly-owned bankruptcy-remote subsidiary of Hanesbrands, entered into Amendment No. 1 (the First Amendment) to the Accounts Receivable Securitization Facility dated as of November 27, 2007. The Accounts Receivable Securitization Facility contains the same leverage ratio and interest coverage ratio provisions as the Senior Secured Credit Facility. The First Amendment effects the same changes to the leverage ratio and the interest coverage ratio that are effected by the Third Amendment described above. Pursuant to the First Amendment, the rate that would be payable to the conduit purchasers or the committed purchasers party to the Accounts Receivable Securitization Facility in the event of certain defaults is increased from 1% over the prime rate to 3% over the greatest of (i) the one-month LIBO rate plus 1%, (ii) the weighted average rates on federal funds transactions plus 0.5%, or (iii) the prime rate. Also pursuant to the First Amendment, several of the factors that contribute to the overall availability of funding have been amended in a manner that would be expected to generally reduce the amount of funding that will be available under the Accounts Receivable Securitization Facility. The First Amendment also provides for certain other amendments to the Accounts Receivable Securitization Facility, including changing the termination date for the Accounts Receivable Securitization Facility from November 27, 2010 to March 15, 2010, and requiring that HBI Receivables make certain payments to a conduit purchaser, a committed purchaser, or certain entities that provide funding to or are affiliated with them, in the event that assets and liabilities of a conduit purchaser are consolidated for financial and/or regulatory accounting purposes with certain other entities. The Company paid $145 in debt amendment fees in connection with entering into the First Amendment which will be amortized over the term of the Accounts Receivable Securitization Facility and wrote off $168 of unamortized debt issuance costs.

On April 13, 2009, the Company and HBI Receivables entered into Amendment No. 2 (the Second Amendment) to the Accounts Receivable Securitization Facility dated as of November 27, 2007. Pursuant to the Second Amendment, several of the factors that contribute to the overall availability of funding have been amended in a manner that is expected to generally increase over time the amount of funding that will be available under the Accounts Receivable Securitization Facility as compared to the amount that would be available pursuant to the First Amendment. The Second Amendment also provides for certain other amendments to the Accounts Receivable Securitization Facility, including changing the termination date for the Accounts Receivable Securitization Facility from March 15, 2010 to April 12, 2010. In addition, HSBC Securities (USA) Inc. replaced JPMorgan Chase Bank, N.A. as agent under the Accounts Receivable Securitization Facility, PNC Bank, N.A. replaced JPMorgan Chase Bank, N.A. as a managing agent, and PNC Bank, N.A. and an affiliate of PNC Bank, N.A. replaced affiliates of JPMorgan Chase Bank, N.A. as a committed purchaser and a conduit purchaser, respectively.

As of April 4, 2009, the Company was in compliance with all covenants under its credit facilities.

During the quarter ended April 4, 2009, the Company recognized $3,946 of charges in the Other expenses line of the Condensed Consolidated Statement of Income which represents certain costs related to the amendments of the Senior Secured Credit Facility and the Accounts Receivable Securitization Facility.

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(8) 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.

Each of the Company s derivative contracts is governed by the International Swaps and Derivatives Association master agreement. If the Company were to default or be unable to perform its responsibilities with respect to a counterparty under this agreement, the counterparty could request immediate payment on any derivative instruments in net liability positions. As of April 4, 2009, all of the counterparties to the Company s derivative instruments are lenders under the Senior Secured Credit Facility. Consistent with the terms of the Senior Secured Credit Facility, derivative instruments with a counterparty that is also a lender under the Senior Secured Credit Facility are secured by the same collateral that secures the Company s obligations under the Senior Secured Credit Facility.

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.

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.

Market 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, in accordance with SFAS No. 52, Foreign Currency Translation. 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 April 4, 2009, the U.S. dollar equivalent of commitments to purchase and sell foreign currencies in our

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)
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foreign currency mark to market hedge derivative portfolio is $56,411 and $41,800, 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 income (loss) is reported on the same line in the Condensed Consolidated Statements of Income as the hedged item.

Cash Flow Hedges Interest Rate Derivatives

The Company is required under the Senior Secured Credit Facility and the Second Lien Credit Facility to hedge a portion of its floating rate debt to reduce interest rate risk caused by floating rate debt issuance. The Company has executed certain 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 borrowings. Given the recent turmoil in the financial and credit markets, the Company has expanded its interest rate hedging portfolio at what the Company believes to be advantageous rates that are expected to minimize the Company s overall interest rate risk. 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.

At April 4, 2009 and January 3, 2009, the Company had outstanding interest rate hedging arrangements whereby it has capped the interest rate on $400,000 of its floating rate debt at 3.50% and has fixed the interest rate on $1,393,680 of its floating rate debt at a weighted average rate of 4.16%. Approximately 79% and 82% of the Company s total debt outstanding at April 4, 2009 and January 3, 2009, respectively, was at a fixed or capped LIBOR rate. There have been no changes in the Company s derivative portfolio during the quarter ended April 4, 2009.

Cash Flow Hedges Foreign Currency Derivatives

The Company uses forward exchange and option contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated transactions, foreign currency-denominated investments, and other known foreign currency exposures. Gains and losses on these contracts are intended to offset losses and gains on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. The effective portion of foreign exchange hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying inventory is sold, using historical inventory turnover rates. The settlement of foreign exchange hedge derivative contracts 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 April 4, 2009, the U.S. dollar equivalent of commitments to sell foreign currencies in our foreign currency cash flow hedge derivative portfolio is $35,616, using the exchange rate at the reporting date.

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Cash Flow Hedges Commodity Derivatives

Cotton is the primary raw material the Company uses to manufacture many of its products and is purchased at market prices. 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. The effective portion of commodity hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying inventory is sold, using historical inventory turnover rates. The settlement of commodity hedge derivative contracts related to the purchase of inventory is reported in the Condensed Consolidated Statements of Cash Flows as cash flow from operating activities. There were no amounts outstanding under cotton futures or cotton option contracts at April 4, 2009 and January 3, 2009.

Fair Values of Derivative Instruments

The fair values of derivative financial instruments recognized in the Condensed Consolidated Balance Sheets of the Company were as follows:

		Fair Value	
	Balance Sheet Location	**April 4, 2009**	**January 3, 2009**
Derivative assets hedges			
Interest rate contracts	Other current assets	$	$ 46
Foreign exchange contracts	Other current assets	1,313	1,209
Total derivative assets hedges		1,313	1,255
Derivative assets non-hedges			
Foreign exchange contracts	Other current assets	2,318	3,286
Total derivative assets		$ 3,631	$ 4,541
Derivatives liabilities hedges			
Interest rate contracts	Accrued liabilities	$ (4,564)	$ (6,084)
Interest rate contracts	Other noncurrent liabilities	(67,092)	(76,927)
Foreign exchange contracts	Accrued liabilities	(320)	(1,347)
Total derivatives liabilities hedges		(71,976)	(84,358)
Derivatives liabilities non-hedges			

Foreign exchange contracts	Accrued liabilities	(1,562)	(533)
Total derivative liabilities		$ (73,538)	$ (84,891)
Net derivative liability		$ (69,907)	$ (80,350)

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Net Derivative Gain or Loss

The effect of cash flow hedge derivative instruments on the Condensed Consolidated Statements of Income and Accumulated Other Comprehensive Loss 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	
	April 4, 2009	March 29, 2008		April 4, 2009	March 29, 2008
Interest rate contracts	$ 11,016	$ (14,831)	Interest expense, net	$ 28	$ 173
Foreign exchange contracts	870	(1,842)	Cost of sales	(1,332)	653
Commodity contracts		(334)	Cost of sales	96	(31)
Total	$ 11,886	$ (17,007)		$ (1,208)	$ 795

The Company expects to reclassify into earnings during the next 12 months net loss from accumulated other comprehensive loss of approximately $4,084.

The changes in fair value of derivatives excluded from the Company s effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in the Selling, general and administrative expenses line in the Condensed Consolidated Statements of Income. The Company recognized gains (losses) related to ineffectiveness of hedging relationships for the quarter ended April 4, 2009 of $294, consisting of $295 for interest rate contracts and $(1) for foreign exchange contracts. The Company recognized losses related to ineffectiveness of hedging relationships for foreign exchange contracts of $(191) for the quarter ended March 29, 2008.

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

	Amount of Gain (Loss) Recognized in Income

	Location of Gain (Loss) Recognized in Income on Derivative	Quarter Ended April 4, 2009	Quarter Ended March 29, 2008
Foreign exchange contracts	Selling, general and administrative expenses	$ 44	$ 72
Total		$ 44	$ 72

(9) Fair Value of Financial Assets and Liabilities

The Company adopted the provisions of SFAS 157 as of December 30, 2007 for its financial assets and liabilities and as of January 4, 2009 for its non-financial assets and liabilities. The adoption of SFAS 157 has had no material impact on the financial condition, results of operations or cash flows of the Company. The Company is, however, required to provide additional disclosures as part of its financial statements. SFAS 157 clarifies that 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. SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined

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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.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in SFAS 157. The three valuation techniques are as follows:

Market approach prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach amount that would be required to replace the service capacity of an asset or replacement cost.

Income approach techniques to convert future amounts to a single present amount based on market expectations, including present value techniques, option-pricing and other models.

The Company primarily applies the market approach for commodity derivatives and the income approach for interest rate and foreign currency derivatives for recurring fair value measurements and attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

As of April 4, 2009, 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 fair values of cotton derivatives are determined based on quoted prices in public markets and are categorized as Level 1. The fair values of interest rate and foreign exchange rate derivatives are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2. The Company does not have any financial assets or liabilities measured at fair value on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 3 during the quarter ended April 4, 2009. There were no changes during the quarter ended April 4, 2009, to the Company s valuation techniques used to measure asset and liability fair values on a recurring basis. As of April 4, 2009, the Company held no non-financial assets or liabilities that are required to be measured at fair value on a recurring basis.

As of April 4, 2009, the Company recognized no changes in fair value for assets or liabilities that are measured at fair value on a non-recurring basis.

The following table sets forth by level within SFAS 157 s fair value hierarchy the Company s financial assets and liabilities accounted for at fair value on a recurring basis at April 4, 2009. As required by SFAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Assets (Liabilities) at Fair Value as of April 4, 2009		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative contracts, net	$	$ (69,907)	$
Total	$	$ (69,907)	$

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	Assets (Liabilities) at Fair Value as of January 3, 2009		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative contracts, net	$	$ (80,350)	$
Total	$	$ (80,350)	$

The determination of fair values above incorporates various factors required under SFAS 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements, but also the impact of the Company s nonperformance risk on its liabilities.

(10) Comprehensive Income (Loss)

SFAS No. 130, Reporting Comprehensive Income, requires that all components of comprehensive income, including net income, be reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income and other comprehensive income, including foreign currency translation adjustments, amounts amortized into net periodic benefit cost as required by SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, and unrealized gains and losses on qualifying cash flow hedges, are combined, net of their related tax effect, to arrive at comprehensive income. The Company s comprehensive income (loss) is as follows:

	Quarter Ended	
	April 4, 2009	March 29, 2008
Net income (loss)	$ (19,328)	$ 36,024
Translation adjustments	(2,535)	(1,530)
Net unrealized gain (loss) on qualifying cash flow hedges, net of tax expense (benefit) of $4,154 and ($6,306), respectively	6,524	(9,906)
Amounts amortized into net periodic income:		

Prior service cost, net of tax of $3 and $4, respectively	4	6
Actuarial loss, net of tax of $810 and $15, respectively	1,271	24
Comprehensive income (loss)	$ (14,064)	$ 24,618

(11) Income Taxes

For the quarters ended April 4, 2009 and March 29, 2008, income taxes have been computed consistent with Accounting Principles Board Opinion No. 28, Interim Financial Reporting and FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods.

The difference in the estimated annual effective income tax rates of 22% for the quarter ended April 4, 2009 and 24% for the quarter ended March 29, 2008 and the U.S. statutory rate of 35% is primarily attributable to unremitted earnings of foreign subsidiaries taxed at rates lower than the U.S. statutory rate. The Company s estimated annual effective tax rate reflects its strategic initiative to make substantial capital investments outside the United States in its global supply chain in 2009.

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The Company and Sara Lee entered into a tax sharing agreement in connection with the spin off of the Company from Sara Lee on September 5, 2006. Under the tax sharing agreement, within 180 days after Sara Lee filed its final consolidated tax return for the period that included September 5, 2006, Sara Lee was required to deliver to the Company a computation of the amount of deferred taxes attributable to the Company s United States and Canadian operations that would be included on the Company s opening balance sheet as of September 6, 2006 (as finally determined) which has been done. The Company has the right to participate in the computation of the amount of deferred taxes. Under the tax sharing agreement, if substituting the amount of deferred taxes as finally determined for the amount of estimated deferred taxes that were included on that balance sheet at the time of the spin off causes a decrease in the net book value reflected on that balance sheet, then Sara Lee will be required to pay the Company the amount of such decrease. If such substitution causes an increase in the net book value reflected on that balance sheet, then the Company will be required to pay Sara Lee the amount of such increase. For purposes of this computation, the Company s deferred taxes are the amount of deferred tax benefits (including deferred tax consequences attributable to deductible temporary differences and carryforwards) that would be recognized as assets on the Company s balance sheet computed in accordance with GAAP, but without regard to valuation allowances, less the amount of deferred tax liabilities (including deferred tax consequences attributable to taxable temporary differences) that would be recognized as liabilities on the Company s opening balance sheet computed in accordance with GAAP, but without regard to valuation allowances. Neither the Company nor Sara Lee will be required to make any other payments to the other with respect to deferred taxes.

The Company s computation of the final amount of deferred taxes for the Company s opening balance sheet as of September 6, 2006 is as follows:

Estimated deferred taxes subject to the tax sharing agreement included in opening balance sheet on September 6, 2006	$ 450,683
Final calculation of deferred taxes subject to the tax sharing agreement	360,460
Decrease in deferred taxes as of opening balance sheet on September 6, 2006	90,223
Preliminary cash installment received from Sara Lee	18,000
Amount due from Sara Lee	$ 72,223

The amount that is expected to be collected from Sara Lee based on the Company s computation of $72,223 is included as a receivable in Deferred tax assets and other current assets in the Consolidated Balance Sheet as of April 4, 2009. The Company and Sara Lee are exchanging information in connection with this matter.

(12) 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, International, Hosiery and Other. These segments are organized principally by product category and geographic location. Management of each segment is responsible for

the operations of these segments businesses but shares 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, socks and thermals. Our direct-to-consumer retail operations are included within the Innerwear segment.

Outerwear sells basic branded products that are seasonal in nature under the product categories of casualwear and activewear.

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International relates to the Latin America, Asia, Canada and Europe geographic locations which sell products that span across the Innerwear, Outerwear and Hosiery reportable segments.

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

Other is comprised of sales of nonfinished products such as yarn and certain other materials in the United States and Latin America in order to maintain asset utilization at certain manufacturing facilities and are intended to generate break even margins.

The Company evaluates the operating performance of its segments based upon segment operating profit, which is defined as operating profit before general corporate expenses, amortization of trademarks and other identifiable intangibles and restructuring and related accelerated depreciation charges and inventory write-offs. 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 3, 2009.

	Quarter Ended	
	April 4, 2009	March 29, 2008
Net sales:		
Innerwear	$ 513,814	$ 543,730
Outerwear	214,907	272,205
International	83,202	104,636
Hosiery	52,772	66,741
Other	2,643	11,121
Total segment net sales(1)	867,338	998,433
Intersegment(2)	(9,497)	(10,586)
Total net sales	$ 857,841	$ 987,847

	Quarter Ended	
	April 4, 2009	March 29, 2008
Segment operating profit (loss):		
Innerwear	$ 48,555	$ 53,675
Outerwear	(15,766)	16,417

International	10,068	14,804
Hosiery	16,564	24,121
Other	(450)	(840)
Total segment operating profit	58,971	108,177
Items not included in segment operating profit:		
General corporate expenses	(15,488)	(11,951)
Amortization of trademarks and other identifiable intangibles	(3,089)	(2,673)
Restructuring	(18,671)	(2,558)
Inventory write-offs included in cost of sales	(3,088)	
Accelerated depreciation included in cost of sales	(2,498)	(2,558)
Accelerated depreciation included in selling, general and administrative expenses	(170)	(643)
Total operating profit	15,967	87,794
Other expenses	(3,946)	
Interest expense, net	(36,800)	(40,394)
Income (loss) before income tax expense (benefit)	$ (24,779)	$ 47,400

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	Quarter Ended	
	April 4, 2009	March 29, 2008
Depreciation and amortization expense:		
Innerwear	$ 10,411	$ 10,551
Outerwear	5,563	7,130
International	500	423
Hosiery	1,156	1,631
Other	45	337
	17,675	20,072
Corporate	6,375	6,192
Total depreciation and amortization expense	$ 24,050	$ 26,264

	Quarter Ended	
	April 4, 2009	March 29, 2008
Additions to long-lived assets:		
Innerwear	$ 22,667	$ 7,402
Outerwear	30,812	13,002
International	203	474
Hosiery	300	79
Other	12	3
	53,994	20,960
Corporate	1,739	6,620
Total additions to long-lived assets	$ 55,733	$ 27,580

(1) Includes sales between segments. Such sales are at transfer prices that are at cost plus markup or at prices equivalent to market value.

(2) Intersegment sales included in the segments net sales are as follows:

	Quarter Ended	
	April 4, 2009	March 29, 2008
Innerwear	$ 832	$ 1,356
Outerwear	5,247	5,430
International	231	669
Hosiery	3,187	3,131
Other		
Total	$ 9,497	$ 10,586

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(13) Consolidating Financial Information

In accordance with the indenture governing the Company s $500,000 Floating Rate Senior Notes issued on December 14, 2006, certain of the Company s subsidiaries have guaranteed the Company s obligations under the Floating Rate Senior Notes. The following presents the condensed consolidating financial information separately for:

(i) Parent Company, the issuer of the guaranteed obligations. Parent Company includes Hanesbrands Inc. and its 100% owned operating divisions which are not legal entities, and excludes its subsidiaries which are legal entities;

(ii) Guarantor subsidiaries, on a combined basis, as specified in the indenture governing the Floating Rate Senior Notes;

(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 are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary, each of which is wholly owned, directly or indirectly, by Hanesbrands Inc. Each entity in the consolidating financial information follows the same accounting policies as described in the Company s Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended January 3, 2009, 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.

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Notes to Condensed Consolidated Financial Statements (Continued)
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Condensed Consolidating Statement of Income
Quarter Ended April 4, 2009

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$ 918,530	$ 92,232	$ 653,996	$ (806,917)	$ 857,841
Cost of sales	817,405	34,480	574,499	(826,419)	599,965
Gross profit	101,125	57,752	79,497	19,502	257,876
Selling, general and administrative expenses	177,561	23,009	22,225	443	223,238
Restructuring	16,136		2,535		18,671
Operating profit (loss)	(92,572)	34,743	54,737	19,059	15,967
Equity in earnings (loss) of subsidiaries	93,429	44,154		(137,583)	
Other expenses	3,946				3,946
Interest expense, net	27,635	6,472	2,695	(2)	36,800
Income (loss) before income tax expense (benefit)	(30,724)	72,425	52,042	(118,522)	(24,779)
Income tax expense (benefit)	(11,396)	2,660	3,285		(5,451)
Net income (loss)	$ (19,328)	$ 69,765	$ 48,757	$ (118,522)	$ (19,328)

Condensed Consolidating Statement of Income
Quarter Ended March 29, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	$ 1,023,459	$ 97,446	$ 644,959	$ (778,017)	$ 987,847
Cost of sales	801,169	39,213	560,838	(758,337)	642,883
Gross profit	222,290	58,233	84,121	(19,680)	344,964
Selling, general and administrative expenses	219,300	21,591	13,274	447	254,612
Restructuring	(515)		3,073		2,558

Operating profit (loss)	3,505	36,642	67,774	(20,127)	87,794
Equity in earnings (loss) of subsidiaries	63,706	36,777		(100,483)	
Interest expense, net	26,343	8,891	5,160		40,394
Income (loss) before income tax expense	40,868	64,528	62,614	(120,610)	47,400
Income tax expense (benefit)	4,844	2,118	4,414		