

Hanesbrands Inc.  
Form 10-Q  
October 31, 2008

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**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 September 27, 2008**

**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)*

**20-3552316**

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

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

**27105**  
*(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  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 29, 2008, there were 93,480,321 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*, *Playtex*, *Bali*, *Just My Size*, *barely there*, *Wonderbra*, *C9 by Champion*, *L eggs*, *Outer Banks* and *Stedman* 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 words. The 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 December 29, 2007, including under the caption Risk Factors.

All forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 29, 2007, including 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](http://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](http://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](http://www.hanesbrands.com), we do not incorporate our Web site or its contents into this Quarterly Report on Form 10-Q.

**Table of Contents****PART I****Item 1. Financial Statements****HANESBRANDS****Condensed Consolidated Statements of Income**  
**(in thousands, except per share amounts)**  
**(unaudited)**

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>September 27, 2008</b>	<b>September 29, 2007</b>
Net sales	\$ 1,153,635	\$ 1,153,606	\$ 3,213,653	\$ 3,315,407
Cost of sales	811,851	792,587	2,145,949	2,234,352
Gross profit	341,784	361,019	1,067,704	1,081,055
Selling, general and administrative expenses	255,228	253,233	776,267	773,817
Restructuring	28,355	2,062	32,355	44,533
Operating profit	58,201	105,724	259,082	262,705
Other expenses		889		1,440
Interest expense, net	37,253	49,270	115,282	152,217
Income before income tax expense	20,948	55,565	143,800	109,048
Income tax expense	5,028	16,669	34,512	32,714
Net income	\$ 15,920	\$ 38,896	\$ 109,288	\$ 76,334
Earnings per share:				
Basic	\$ 0.17	\$ 0.41	\$ 1.16	\$ 0.79
Diluted	\$ 0.17	\$ 0.40	\$ 1.14	\$ 0.79
Weighted average shares outstanding:				
Basic	93,992	95,664	94,283	96,100
Diluted	95,018	96,615	95,483	96,682

See accompanying notes to Condensed Consolidated Financial Statements.

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

	<b>September 27, 2008</b>	<b>December 29, 2007</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 86,212	\$ 174,236
Trade accounts receivable, less allowances of \$23,951 at September 27, 2008 and \$31,642 at December 29, 2007	562,937	575,069
Inventories	1,359,008	1,117,052
Deferred tax assets and other current assets	244,224	227,977
<b>Total current assets</b>	<b>2,252,381</b>	<b>2,094,334</b>
Property, net	562,963	534,286
Trademarks and other identifiable intangibles, net	155,879	151,266
Goodwill	318,112	310,425
Deferred tax assets and other noncurrent assets	338,303	349,172
<b>Total assets</b>	<b>\$ 3,627,638</b>	<b>\$ 3,439,483</b>
<b>Liabilities and Stockholders Equity</b>		
Accounts payable	\$ 322,824	\$ 289,166
Accrued liabilities	377,232	380,239
Notes payable	71,528	19,577
<b>Total current liabilities</b>	<b>771,584</b>	<b>688,982</b>
Long-term debt	2,315,250	2,315,250
Other noncurrent liabilities	159,870	146,347
<b>Total liabilities</b>	<b>3,246,704</b>	<b>3,150,579</b>
Stockholders equity:		
Preferred stock (50,000,000 authorized shares; \$.01 par value) Issued and outstanding	None	None
Common stock (500,000,000 authorized shares; \$.01 par value) Issued and outstanding	93,355,527 at September 27, 2008 and 95,232,478 at December 29, 2007	934
Additional paid-in capital	222,338	199,019
Retained earnings	199,641	117,849
Accumulated other comprehensive loss	(41,979)	(28,918)

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Total stockholders' equity	380,934	288,904
Total liabilities and stockholders' equity	\$ 3,627,638	\$ 3,439,483

See accompanying notes to Condensed Consolidated Financial Statements.



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

	<b>Nine Months Ended</b>	
	<b>September 27,</b>	<b>September 29,</b>
	<b>2008</b>	<b>2007</b>
Operating activities:		
Net income	\$ 109,288	\$ 76,334
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	68,930	95,405
Amortization of intangibles	8,683	4,516
Restructuring	(5,591)	(3,446)
Losses on early extinguishment of debt		1,440
Amortization of debt issuance costs	4,523	4,937
Stock compensation expense	23,052	27,141
Deferred taxes and other	(6,329)	(12,351)
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	11,565	(109,494)
Inventories	(242,711)	38,121
Other assets	(17,068)	23,539
Accounts payable	32,808	67,954
Accrued liabilities	(5,771)	21,747
Net cash (used in) provided by operating activities	(18,621)	235,843
Investing activities:		
Purchases of property, plant and equipment	(123,319)	(45,387)
Acquisition of business	(10,011)	(17,380)
Proceeds from sales of assets	24,329	13,022
Other	(643)	(575)
Net cash used in investing activities	(109,644)	(50,320)
Financing activities:		
Principal payments on capital lease obligations	(707)	(914)
Borrowings on notes payable	316,958	29,969
Repayments on notes payable	(265,195)	(26,845)
Cost of debt issuance	(69)	(2,533)
Borrowings on revolving loan facility	524,000	
Repayments on revolving loan facility	(524,000)	
Repayments of debt under credit facilities		(128,125)
Decrease in bank overdraft		(834)
Proceeds from stock options exercised	2,200	5,464

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Stock repurchases	(30,275)	(44,473)
Borrowings on accounts receivable securitization	20,944	
Repayments on accounts receivable securitization	(20,944)	
Transaction with Sara Lee Corporation	18,000	
Other	(136)	552
Net cash provided by (used in) financing activities	40,776	(167,739)
Effect of changes in foreign exchange rates on cash	(535)	2,620
(Decrease) increase in cash and cash equivalents	(88,024)	20,404
Cash and cash equivalents at beginning of year	174,236	155,973
Cash and cash equivalents at end of period	\$ 86,212	\$ 176,377

See accompanying notes to Condensed Consolidated Financial Statements.

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**HANESBRANDS**

**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 position 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 financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the results of operations, financial position 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.

During the second quarter ended June 28, 2008, the Company acquired a sewing operation in Thailand, resulting in approximately \$3,600 of additional goodwill. The Company also added two sewing facilities in Vietnam during the second quarter ended June 28, 2008.

Certain prior year amounts in the condensed consolidated financial statements, none of which are material, have been reclassified to conform with the current year presentation. These reclassifications, which relate to changes in the classification of inventory, segment assets, segment depreciation and amortization expense, segment additions to long-lived assets and consolidating financial information, had no impact on the Company's results of operations.

**(2) Recently Issued 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 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. The Company is in the process of evaluating the impact of SFAS 157 as it relates to its non-financial assets and liabilities.

***Business Combinations***

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS 141R ). The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a company provides in its financial reports about a business combination

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

and its effects. Under SFAS 141R, a company would be required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at their fair value at the acquisition date. It further requires that research and development assets acquired in a business combination that have no alternative future use be measured at their acquisition-date fair value and then immediately charged to expense, and that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. Among other changes, this statement would also require that negative goodwill be recognized in earnings as a gain attributable to the acquisition, and any deferred tax benefits resulting from a business combination be recognized in income from continuing operations in the period of the combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

***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 this Statement 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 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. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not believe that the adoption of SFAS 160 will have a material impact on its results of operations or financial position.

***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 to include more detailed qualitative disclosures and expanded quantitative disclosures. The provisions of SFAS 161 are effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS 161 will not have a material impact on the Company's results of operations.

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

**(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 third quarters and nine months ended September 27, 2008 and September 29, 2007. Diluted EPS was calculated to give effect to all potentially dilutive shares of common stock. The reconciliation of basic to diluted weighted average shares for the third quarters and nine months ended September 27, 2008 and September 29, 2007 is as follows:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>September 27, 2008</b>	<b>September 29, 2007</b>
Basic weighted average shares	93,992	95,664	94,283	96,100
Effect of potentially dilutive securities:				
Stock options	151	346	383	221
Restricted stock units	871	603	812	361
Employee stock purchase plan	4	2	5	
Diluted weighted average shares	95,018	96,615	95,483	96,682

Options to purchase 2,454 and 1,458 shares of common stock were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive for the third quarter and nine months ended September 27, 2008, respectively.

Options to purchase 998 and 1,008 shares of common stock were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive for the third quarter and nine months ended September 29, 2007, respectively.

**(4) Stock-Based Compensation**

During the first quarter ended March 29, 2008, the Company granted options to purchase 1,340 shares of common stock pursuant to the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (the Omnibus Plan ) at an exercise price of \$25.10 per share, which was the closing price of Hanesbrands stock on the date of grant. These options can be exercised over a term of seven years and vest ratably over one to three years. The fair value of each option granted during the first quarter ended March 29, 2008 was estimated as of the date of grant using the Black-Scholes option-pricing model using the following assumptions: volatility of 28%; expected terms of 3.8 - 4.5 years; dividend yield of 0%; and risk-free interest rates ranging from 2.45% to 2.64%. The Company uses the volatility of peer companies for a period of time that is comparable to the expected life of the option to determine volatility assumptions due to the limited trading history of the Company s common stock since the Company s spin off from Sara Lee Corporation ( Sara Lee ) on September 5, 2006. The Company utilized the simplified method outlined in SEC Staff

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Accounting Bulletin No. 107 to estimate expected lives for options granted during the first quarter ended March 29, 2008. SEC Staff Accounting Bulletin No. 110, which was issued in December 2007, amends SEC Staff Accounting Bulletin No. 107 and gives a limited extension on using the simplified method for valuing stock option grants to eligible public companies that do not have sufficient historical exercise patterns on options granted to employees. The weighted average fair value of individual options granted during the first quarter ended March 29, 2008 was \$7.04.

During the first quarter ended March 29, 2008, the Company granted 540 restricted stock units ( RSUs ) pursuant to the Omnibus Plan with a grant date fair value of \$25.10 which was the closing price of Hanesbrands stock on the date of grant. During the third quarter ended September 27, 2008, the Company

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

granted 10 RSUs pursuant to the Omnibus Plan with a grant date fair value of \$21.44 which was the closing price of Hanesbrands' stock on the date of grant. Upon the achievement of defined service conditions, the RSUs are converted into shares of the Company's common stock on a one-for-one basis and issued to the grantees. All RSUs vest solely upon continued future service to the Company. Share-based compensation expense for these awards is recognized over the period during which the grantees provide the requisite service to the Company.

During the third quarter and nine months ended September 27, 2008, 35 and 93 shares, respectively, were purchased under the Hanesbrands Inc. Employee Stock Purchase Plan of 2006 (the "ESPP") by eligible employees. During the third quarter and nine months ended September 29, 2007, 33 and 46 shares, respectively, were purchased under the ESPP by eligible employees. The Company had 2,271 shares of common stock available for issuance under the ESPP as of September 27, 2008.

**(5) 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 these efforts, 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 on September 5, 2006, of which approximately half is expected to be noncash. As of September 27, 2008, the Company has recognized approximately \$173,000 in restructuring and related charges related to these efforts since September 5, 2006. Of these charges, approximately \$70,000 relates to accelerated depreciation of buildings and equipment for facilities that have been or will be closed, approximately \$68,000 relates to employee termination and other benefits, approximately \$21,000 relates to lease termination and other costs and approximately \$14,000 relates to write-offs of stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate. 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 impact of restructuring efforts on income before income tax expense is summarized as follows:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27,</b>	<b>September 29,</b>	<b>September 27,</b>	<b>September 29,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Restructuring programs:				
Year ended January 3, 2009 restructuring actions	\$ 46,633	\$	\$ 52,069	\$
Year ended December 29, 2007 restructuring actions	691 (3,430)	15,786 (922)	7,719 (3,417)	64,838 11,677



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Six months ended December 30, 2006

restructuring actions

Year ended July 1, 2006 and prior

restructuring actions

12

(51)

(53)

(603)

Decrease in income before income tax expense \$ 43,906 \$ 14,813 \$ 56,318 \$ 75,912

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**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:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>September 27, 2008</b>	<b>September 29, 2007</b>
Cost of sales	\$ 18,038	\$ 11,802	\$ 25,229	\$ 29,482
Selling, general and administrative expenses	(2,487)	949	(1,266)	1,897
Restructuring	28,355	2,062	32,355	44,533
Decrease in income before income tax expense	\$ 43,906	\$ 14,813	\$ 56,318	\$ 75,912

Components of the restructuring actions are as follows:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>September 27, 2008</b>	<b>September 29, 2007</b>
Accelerated depreciation	\$ 1,524	\$ 12,565	\$ 9,936	\$ 31,193
Employee termination and other benefits	21,283	1,533	25,203	33,636
Inventory write-offs	14,027	186	14,027	186
Noncancelable lease and other contractual obligations	7,072	529	7,152	10,897
	\$ 43,906	\$ 14,813	\$ 56,318	\$ 75,912

Rollforward of accrued restructuring is as follows:

	<b>Nine Months Ended September 27, 2008</b>
Beginning accrual	\$ 23,350
Restructuring expenses	36,636
Cash payments	(24,625)
Adjustments to restructuring expenses	(5,662)

Ending accrual	\$	29,699
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The accrual balance as of September 27, 2008 is comprised of \$29,139 in current accrued liabilities, primarily related to employee termination and other benefits, and \$560 in other noncurrent liabilities, primarily related to lease termination payments, in the Condensed Consolidated Balance Sheet.

Adjustments to previous estimates are primarily attributable to employee termination and other benefits and lease termination costs and 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 3, 2009 Actions***

During the nine months ended September 27, 2008, the Company approved actions to close 11 manufacturing facilities and two distribution centers and eliminate approximately 9,400 positions in El Salvador, Mexico, Costa Rica, Honduras and the United States. The production capacity represented by the manufacturing facilities will be relocated to lower cost locations in Asia, the Caribbean Basin and Central America. The distribution capacity will be relocated to the Company's West Coast distribution facility in California in order to expand capacity for goods

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

the Company sources from Asia. The Company recorded charges of \$46,633 and \$52,069 in the third quarter and nine months ended September 27, 2008, respectively. The Company recognized \$21,741 and \$27,099 in the third quarter and nine months ended September 27, 2008, respectively, which represents employee termination and other benefits recognized in accordance with benefit plans previously communicated to the affected employee group, \$1,734 and \$1,812 in the third quarter and nine months ended September 27, 2008, respectively, for accelerated depreciation of buildings and equipment, \$9,131 in each of the third quarter and nine months ended September 27, 2008 for noncancelable lease and other contractual obligations related to the closure of certain manufacturing facilities and \$14,027 in each of the third quarter and nine months ended September 27, 2008 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. All actions are expected to be completed within a 12-month period.

**(6) Inventories**

Inventories consisted of the following:

	<b>September 27, 2008</b>	<b>December 29, 2007</b>
Raw materials	\$ 187,726	\$ 176,758
Work in process	141,536	122,724
Finished goods	1,029,746	817,570
	\$ 1,359,008	\$ 1,117,052

**(7) Allowances for Trade Accounts Receivable**

The changes in the Company's allowance for doubtful accounts and allowance for chargebacks and other deductions for the third quarter and nine months ended September 27, 2008 are as follows:

	<b>Allowance for Doubtful Accounts</b>	<b>Allowance for Chargebacks and Other Deductions</b>	<b>Total</b>
Balance at December 29, 2007:	\$ 9,328	\$ 22,314	\$ 31,642
Charged to expenses	84	3,419	3,503
Deductions and write-offs	(3,311)	(12,059)	(15,370)

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Balance at March 29, 2008:	6,101	13,674	19,775
Charged to expenses	1,334	2,564	3,898
Deductions and write-offs	(753)	(3,593)	(4,346)
Balance at June 28, 2008:	6,682	12,645	19,327
Charged to expenses	7,071	69	7,140
Deductions and write-offs	(468)	(2,048)	(2,516)
Balance at September 27, 2008:	\$ 13,285	\$ 10,666	\$ 23,951

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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**(8) Long-Term Debt**

The Company had the following long-term debt at September 27, 2008 and December 29, 2007:

	<b>Interest Rate as of September 27, 2008</b>	<b>Principal Amount</b>		<b>Maturity Date</b>
		<b>September 27, 2008</b>	<b>December 29, 2007</b>	
Senior Secured Credit Facility:				
Term A	4.15%	\$ 139,000	\$ 139,000	September 2012
Term B	4.55%	976,250	976,250	September 2013
Revolving Loan Facility	5.50%			September 2011
Second Lien Credit Facility	6.55%	450,000	450,000	March 2014
Floating Rate Senior Notes	6.51%	500,000	500,000	December 2014
Accounts Receivable Securitization	3.24%	250,000	250,000	November 2010
		\$ 2,315,250	\$ 2,315,250	

As of September 27, 2008, the Company had \$0 outstanding under the Senior Secured Credit Facility, \$500,000 outstanding under the Revolving Loan Facility and \$57,139 of standby and trade letters of credit issued and outstanding under this facility.

Availability of funding under the accounts receivable securitization depends primarily upon the eligible outstanding receivables balance. As of September 27, 2008, the Company had \$250,000 outstanding under the accounts receivable securitization. The total amount of receivables used as collateral for the accounts receivable securitization was \$481,720 and \$495,245 at September 27, 2008 and December 29, 2007, respectively, and is reported on the Company's Condensed Consolidated Balance Sheets in trade accounts receivables, less allowances.

During the third quarter and nine months ended September 29, 2007, the Company recognized \$889 and \$1,440, respectively, of losses on early extinguishment of debt related to unamortized debt issuance costs on the Senior Secured Credit Facility as a result of prepayments of \$50,000 of principal in June 2007 and \$75,000 of principal made in September 2007. These losses are reflected in the "Other expenses" line of the Condensed Consolidated Statements of Income.

On August 21, 2008, the Company entered into a Second Amendment (the "Second Amendment") to the Senior Secured Credit Facility dated as of September 5, 2006 and a First Amendment (the "First Amendment") to the Second Lien Credit Facility dated as of September 5, 2006. Pursuant to the Second Amendment and the First Amendment, the amount of unsecured indebtedness which the Company and its subsidiaries that are obligors pursuant to the Senior Secured Credit Facility and the Second Lien Credit Facility, respectively, may incur under senior notes was increased from \$500,000 to \$1,000,000. The provisions of the Senior Secured Credit Facility and the Second Lien Credit

Facility that require the proceeds of the issuance of any such notes be applied to repay amounts due with respect to these Credit Facilities, and specify how any such proceeds will be applied, remain unchanged.

**(9) Fair Value of Financial Assets and Liabilities**

The Company has adopted the provisions of SFAS 157 as of December 30, 2007 for its financial assets and liabilities. Although having partially adopted SFAS 157 has had no material impact on its financial condition, results of operations or cash flows, the Company is now required to provide additional disclosures

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
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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 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 September 27, 2008, 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, foreign exchange rates and cotton. 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 third quarter and nine months ended September 27, 2008. There were no changes during the third quarter and nine months ended September 27, 2008 to the Company's valuation techniques used to measure asset and liability fair values on a 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 September 27, 2008. 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  
September 27, 2008**

	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Derivative contracts, net	\$	\$ (23,309)	\$
Total	\$	\$ (23,309)	\$

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

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 is as follows:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>September 27, 2008</b>	<b>September 29, 2007</b>
Net income	\$ 15,920	\$ 38,896	\$ 109,288	\$ 76,334
Translation adjustments	(8,196)	9,389	(5,506)	17,023
Net unrealized loss on qualifying cash flow hedges, net of tax benefit of \$(1,297), \$(3,558), \$(1,443), and \$(824), respectively	(2,038)	(5,589)	(2,267)	(1,295)
Recognition of loss from pension plan curtailment, net of tax benefit of \$(547)	859		859	
Postretirement income released through other comprehensive income, net of tax of \$842		(1,323)		(1,323)
Amounts amortized into net periodic income:				
Prior service cost (benefit), net of tax (benefit) of \$(4), \$778, \$(12) and \$2,336, respectively	6	(1,223)	18	(3,669)
Actuarial loss (gain), net of tax (benefit) of \$(15), \$754, \$(45) and \$24, respectively	24	(1,184)	72	(37)
Comprehensive income	\$ 6,575	\$ 38,966	\$ 102,464	\$ 87,033

**(11) Income Taxes**

For the third quarters and nine months ended September 27, 2008 and September 29, 2007, 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 24% for the third quarter and nine months ended September 27, 2008 and 30% for the third quarter and nine months ended September 29, 2007 and the U.S. statutory rate of 35% is primarily attributable to unremitted earnings of foreign subsidiaries taxed

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(dollars and shares in thousands, except per share data)**  
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at rates less than the U.S. statutory rate. The Company's estimated annual effective tax rate is reflective of its strategic initiative to make substantial capital investments outside the United States in its global supply chain in 2008.

Within 180 days after Sara Lee filed its final consolidated tax return for the period that includes 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 balance sheet as of September 6, 2006. 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. Although the final settlement of any amounts due has not been determined, during the second quarter ended June 28, 2008, the Company received a preliminary cash installment of \$18,000 from Sara Lee.

**(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, Hosiery, International and Other. These segments are organized principally by product category and geographic location. Management of each segment is responsible for the operations of these businesses.

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, thermals and sleepwear.

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

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

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.

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 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 December 29, 2007.

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(dollars and shares in thousands, except per share data)**  
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Certain prior year segment assets, depreciation and amortization expense and additions to long-lived assets disclosures have been revised to conform to the current year presentation.

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27,</b>	<b>September 29,</b>	<b>September 27,</b>	<b>September 29,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net sales:</b>				
Innerwear	\$ 650,372	\$ 635,167	\$ 1,830,437	\$ 1,917,118
Outerwear	348,467	349,352	880,809	896,583
Hosiery	50,197	64,120	166,672	189,215
International	116,581	103,341	352,120	303,119
Other	4,769	13,587	20,064	46,629
Total segment net sales(1)	1,170,386	1,165,567	3,250,102	3,352,664
Intersegment(2)	(16,751)	(11,961)	(36,449)	(37,257)
Total net sales	\$ 1,153,635	\$ 1,153,606	\$ 3,213,653	\$ 3,315,407

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27,</b>	<b>September 29,</b>	<b>September 27,</b>	<b>September 29,</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Segment operating profit:</b>				
Innerwear	\$ 71,097	\$ 63,173	\$ 204,714	\$ 243,821
Outerwear	19,243	36,051	55,587	54,453
Hosiery	13,081	18,670	52,944	52,849
International	14,010	9,616	47,662	34,321
Other	314	(306)	304	(17)
Total segment operating profit	117,745	127,204	361,211	385,427
Items not included in segment operating profit:				
General corporate expenses	(12,593)	(5,225)	(37,128)	(42,294)
Amortization of trademarks and other identifiable intangibles	(3,045)	(1,442)	(8,683)	(4,516)
Restructuring	(28,355)	(2,062)	(32,355)	(44,533)
Inventory write-offs included in cost of sales	(14,027)	(186)	(14,027)	(186)
	(4,011)	(11,616)	(11,202)	(29,296)

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Accelerated depreciation included in cost of sales				
Accelerated depreciation included in selling, general and administrative expenses	2,487	(949)	1,266	(1,897)
Total operating profit	58,201	105,724	259,082	262,705
Other expenses		(889)		(1,440)
Interest expense, net	(37,253)	(49,270)	(115,282)	(152,217)
Income before income tax expense	\$ 20,948	\$ 55,565	\$ 143,800	\$ 109,048

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(dollars and shares in thousands, except per share data)**  
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	<b>September 27, 2008</b>	<b>December 29, 2007</b>
<b>Assets:</b>		
Innerwear	\$ 1,341,991	\$ 1,247,441
Outerwear	909,161	754,178
Hosiery	99,191	97,804
International	231,379	232,142
Other	11,733	16,807
	2,593,455	2,348,372
Corporate(3)	1,034,183	1,091,111
Total assets	\$ 3,627,638	\$ 3,439,483

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>September 27, 2008</b>	<b>September 29, 2007</b>
<b>Depreciation and amortization expense:</b>				
Innerwear	\$ 10,610	\$ 9,970	\$ 32,642	\$ 32,611
Outerwear	5,652	6,152	18,461	18,693
Hosiery	1,441	2,444	4,626	7,823
International	583	1,129	1,755	3,173
Other	198	668	793	1,564
	18,484	20,363	58,277	63,864
Corporate	4,169	13,295	19,336	36,057
Total depreciation and amortization expense	\$ 22,653	\$ 33,658	\$ 77,613	\$ 99,921

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>September 27, 2008</b>	<b>September 29, 2007</b>
<b>Additions to long-lived assets:</b>				
Innerwear	\$ 25,377	\$ 10,297	\$ 51,880	\$ 19,824



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Outerwear	21,217	6,603	53,357	10,263
Hosiery	9	188	327	1,286
International	724	456	1,866	1,335
Other	16	578	30	637
	47,343	18,122	107,460	33,345
Corporate	2,426	8,977	15,859	12,042
Total additions to long-lived assets	\$ 49,769	\$ 27,099	\$ 123,319	\$ 45,387

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

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(dollars and shares in thousands, except per share data)**  
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(2) Intersegment sales included in the segments' net sales are as follows:

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>September 27, 2008</b>	<b>September 29, 2007</b>
Innerwear	\$ 4,270	\$ 1,670	\$ 6,468	\$ 5,057
Outerwear	8,538	5,475	19,303	17,254
Hosiery	3,603	4,124	9,293	12,692
International	340	692	1,385	2,254
Other				
<b>Total</b>	<b>\$ 16,751</b>	<b>\$ 11,961</b>	<b>\$ 36,449</b>	<b>\$ 37,257</b>

(3) Principally cash and equivalents, certain fixed assets, net deferred tax assets, goodwill, trademarks and other identifiable intangibles, and certain other noncurrent assets.

**(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.

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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 December 29, 2007, 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.

Certain prior period amounts have been reclassified to conform to the current year presentation and legal entity structure relating to the classification of the investment in subsidiary balances and related equity in earnings of subsidiaries.

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(dollars and shares in thousands, except per share data)**  
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**Condensed Consolidating Statement of Income**  
**Quarter Ended September 27, 2008**

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 1,253,006	\$ 112,281	\$ 770,153	\$ (981,805)	\$ 1,153,635
Cost of sales	953,856	42,439	683,669	(868,113)	811,851
Gross profit	299,150	69,842	86,484	(113,692)	341,784
Selling, general and administrative expenses	205,633	17,566	32,146	(117)	255,228
Restructuring	24,036	139	4,180		28,355
Operating profit (loss)	69,481	52,137	50,158	(113,575)	58,201
Equity in earnings (loss) of subsidiaries	(32,753)	45,678		(12,925)	
Interest expense, net	24,964	7,733	4,543	13	37,253
Income (loss) before income tax expense (benefit)	11,764	90,082	45,615	(126,513)	20,948
Income tax expense (benefit)	(4,156)	3,938	5,246		5,028
Net income (loss)	\$ 15,920	\$ 86,144	\$ 40,369	\$ (126,513)	\$ 15,920

**Condensed Consolidating Statement of Income**  
**Quarter Ended September 29, 2007**

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 1,143,537	\$ 229,998	\$ 621,840	\$ (841,769)	\$ 1,153,606
Cost of sales	878,409	164,846	545,064	(795,732)	792,587
Gross profit	265,128	65,152	76,776	(46,037)	361,019
Selling, general and administrative expenses	199,450	(54,260)	(16,162)	124,205	253,233
Restructuring	905	67	1,090		2,062

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Operating profit (loss)	64,773	119,345	91,848	(170,242)	105,724
Equity in earnings (loss) of subsidiaries	31,496	37,420		(68,916)	
Other expenses	889				889
Interest expense, net	38,797	10,633	(168)	8	49,270
Income (loss) before income tax expense (benefit)	56,583	146,132	92,016	(239,166)	55,565
Income tax expense (benefit)	17,687	6,404	(7,422)		16,669
Net income (loss)	\$ 38,896	\$ 139,728	\$ 99,438	\$ (239,166)	\$ 38,896

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
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**Condensed Consolidating Statement of Income**  
**Nine Months Ended September 27, 2008**

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 3,362,897	\$ 321,419	\$ 2,176,844	\$ (2,647,507)	\$ 3,213,653
Cost of sales	2,626,383	125,794	1,910,886	(2,517,114)	2,145,949
Gross profit	736,514	195,625	265,958	(130,393)	1,067,704
Selling, general and administrative expenses	651,345	56,566	67,911	445	776,267
Restructuring	23,942	266	8,147		32,355
Operating profit (loss)	61,227	138,793	189,900	(130,838)	259,082
Equity in earnings (loss) of subsidiaries	132,451	125,829		(258,280)	
Interest expense, net	76,750	24,595	13,931	6	115,282
Income (loss) before income tax expense	116,928	240,027	175,969	(389,124)	143,800
Income tax expense	7,640	9,453	17,419		34,512
Net income (loss)	\$ 109,288	\$ 230,574	\$ 158,550	\$ (389,124)	\$ 109,288

**Condensed Consolidating Statement of Income**  
**Nine Months Ended September 29, 2007**

	<b>Parent Company</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Consolidating Entries and Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 3,284,987	\$ 660,117	\$ 1,863,661	\$ (2,493,358)	\$ 3,315,407
Cost of sales	2,498,548	485,058	1,644,007	(2,393,261)	2,234,352
Gross profit	786,439	175,059	219,654	(100,097)	1,081,055
Selling, general and administrative expenses	660,861	(51,777)	40,212	124,521	773,817
Restructuring	43,466	72	995		44,533

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Operating profit (loss)	82,112	226,764	178,447	(224,618)	262,705
Equity in earnings (loss) of subsidiaries	132,846	104,184		(237,030)	
Other expenses	1,440				1,440
Interest expense, net	121,041	31,903	(731)	4	152,217
Income (loss) before income tax expense	92,477	299,045	179,178	(461,652)	109,048
Income tax expense	16,143	10,355	6,216		32,714
Net income (loss)	\$ 76,334	\$ 288,690	\$ 172,962	\$ (461,652)	\$ 76,334

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

**Condensed Consolidating Balance Sheet**  
**September 27, 2008**

	<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	\$ 34,960	\$ 1,720	\$ 49,532	\$	\$ 86,212
Trade accounts receivable	(6,359)	6,959	564,055	(1,718)	562,937
Inventories	1,116,124	54,091	334,380	(145,587)	1,359,008
Deferred tax assets and other current assets	198,721	8,232	39,456	(2,185)	244,224
Total current assets	1,343,446	71,002	987,423	(149,490)	2,252,381
Property, net	236,731	12,830	313,402		562,963
Trademarks and other identifiable intangibles, net	34,296	115,949	5,634		155,879
Goodwill	232,882	16,934	68,296		318,112
Investments in subsidiaries	537,675	673,309		(1,210,984)	
Deferred tax assets and other noncurrent assets	199,499	348,357	(131,439)	(78,114)	338,303
Total assets	\$ 2,584,529	\$ 1,238,381	\$ 1,243,316	\$ (1,438,588)	\$ 3,627,638
<b>Liabilities and Stockholders</b>					
<b>Equity</b>					
Accounts payable	\$ 155,493	\$ 3,188	\$ 78,496	\$ 85,647	\$ 322,824
Accrued liabilities	287,553	29,845	62,468	(2,634)	377,232
Notes payable			71,528		71,528
Total current liabilities	443,046	33,033	212,492	83,013	771,584
Long-term debt	1,615,250	450,000	250,000		2,315,250
Other noncurrent liabilities	145,299	1,845	8,302	4,424	159,870
Total liabilities	2,203,595	484,878	470,794	87,437	3,246,704
Stockholders' equity	380,934	753,503	772,522	(1,526,025)	380,934
Total liabilities and stockholders' equity	\$ 2,584,529	\$ 1,238,381	\$ 1,243,316	\$ (1,438,588)	\$ 3,627,638





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

**Condensed Consolidating Balance Sheet**  
**December 29, 2007**

	<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	\$ 84,476	\$ 6,329	\$ 83,431	\$	\$ 174,236
Trade accounts receivable	(13,135)	4,389	586,327	(2,512)	575,069
Inventories	827,312	47,443	281,224	(38,927)	1,117,052
Deferred tax assets and other current assets	196,451	3,888	30,013	(2,375)	227,977
Total current assets	1,095,104	62,049	980,995	(43,814)	2,094,334
Property, net	286,081	6,979	241,226		534,286
Trademarks and other identifiable intangibles, net	25,955	119,682	5,629		151,266
Goodwill	232,882	16,934	60,609		310,425
Investments in subsidiaries	424,746	585,168		(1,009,914)	
Deferred tax assets and other noncurrent assets	386,070	249,621	(232,117)	(54,402)	349,172
Total assets	\$ 2,450,838	\$ 1,040,433	\$ 1,056,342	\$ (1,108,130)	\$ 3,439,483
<b>Liabilities and Stockholders Equity</b>					
Accounts payable	\$ 127,887	\$ 4,344	\$ 71,288	\$ 85,647	\$ 289,166
Accrued liabilities	299,078	22,537	61,294	(2,670)	380,239
Notes payable			19,577		19,577
Total current liabilities	426,965	26,881	152,159	82,977	688,982
Long-term debt	1,615,250	450,000	250,000		2,315,250
Other noncurrent liabilities	119,719	1,773	19,854	5,001	146,347
Total liabilities	2,161,934	478,654	422,013	87,978	3,150,579
Stockholders' equity	288,904	561,779	634,329	(1,196,108)	288,904
Total liabilities and stockholders' equity	\$ 2,450,838	\$ 1,040,433	\$ 1,056,342	\$ (1,108,130)	\$ 3,439,483



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

**Condensed Consolidating Statement of Cash Flows**  
**Nine Months Ended September 27, 2008**

	<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	\$ (28,878)	\$ 133,333	\$ 136,650	\$ (259,726)	\$ (18,621)
Investing activities:					
Purchases of property, plant and equipment	(25,211)	(8,852)	(89,256)		(123,319)
Acquisition of business			(10,011)		(10,011)
Proceeds from sales of assets	20,059	38	4,232		24,329
Other	(89)			(554)	(643)
Net cash used in investing activities	(5,241)	(8,814)	(95,035)	(554)	(109,644)
Financing activities:					
Principal payments on capital lease obligations	(700)		(7)		(707)
Borrowings on notes payable			316,958		316,958
Repayments on notes payable			(265,195)		(265,195)
Cost of debt issuance	(48)	(10)	(11)		(69)
Borrowings on revolving loan facility	524,000				524,000
Repayments on revolving loan facility	(524,000)				(524,000)
Proceeds from stock options exercised	2,200				2,200
Stock repurchases	(30,275)				(30,275)
Borrowings on accounts receivable securitization			20,944		20,944
Repayments on accounts receivable securitization			(20,944)		(20,944)
Transaction with Sara Lee Corporation	18,000				18,000
Other	(136)				(136)
Net transactions with related entities	(4,438)	(129,118)	(126,724)	260,280	

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Net cash provided by (used in) financing activities	(15,397)	(129,128)	(74,979)	260,280	40,776
Effect of changes in foreign exchange rates on cash			(535)		(535)
Decrease in cash and cash equivalents	(49,516)	(4,609)	(33,899)		(88,024)
Cash and cash equivalents at beginning of year	84,476	6,329	83,431		174,236
Cash and cash equivalents at end of period	\$ 34,960	\$ 1,720	\$ 49,532	\$	\$ 86,212

**Table of Contents****HANESBRANDS**

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

**Condensed Consolidating Statement of Cash Flows**  
**Nine Months Ended September 29, 2007**

	<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	\$ 313,752	\$ 188,626	\$ 48,214	\$ (314,749)	\$ 235,843
Investing activities:					
Purchases of property, plant and equipment	(25,680)	(6,048)	(13,659)		(45,387)
Acquisition of business			(17,380)		(17,380)
Proceeds from sales of assets	7,286	4,870	866		13,022
Other	(1,444)	103	3	763	(575)
Net cash provided by (used in) investing activities	(19,838)	(1,075)	(30,170)	763	(50,320)
Financing activities:					
Principal payments on capital lease obligations	(888)	(26)			(914)
Borrowings on notes payable			29,969		29,969
Repayments on notes payable			(26,845)		(26,845)
Cost of debt issuance	(2,415)	(118)			(2,533)
Repayment of debt under credit facilities	(128,125)				(128,125)
Decrease in bank overdraft			(834)		(834)
Proceeds from stock options exercised	5,464				5,464
Stock repurchases	(44,473)				(44,473)
Other	552				552
Net transactions with related entities	(156,631)	(187,818)	30,463	313,986	
Net cash provided by (used in) financing activities	(326,516)	(187,962)	32,753	313,986	(167,739)
Effect of changes in foreign exchange rates on cash			2,620		2,620

Increase (decrease) in cash and cash equivalents	(32,602)	(411)	53,417	20,404
Cash and cash equivalents at beginning of year	60,960	(1,251)	96,264	155,973
Cash and cash equivalents at end of period	\$ 28,358	\$ (1,662)	\$ 149,681	\$ 176,377

**(14) Subsequent Event**

Subsequent to September 27, 2008, the Company entered into interest rate swap agreements with a notional amount totaling \$400,000, as a result of which the Company has fixed LIBOR on a portion of its outstanding debt at 2.80% for a 2-year term.

**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 and Risk Factors* for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 29, 2007, 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, Just My Size, barely there* and *Wonderbra*. We design, manufacture, source and sell a broad range of apparel essentials such as t-shirts, bras, panties, men's underwear, kids' underwear, socks, hosiery, casualwear and activewear.

Our operations are managed in five operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Hosiery, International and Other. These segments are organized principally by product category and geographic location. Management of each segment is responsible for the operations of these businesses.

*Innerwear.* The Innerwear segment focuses on core apparel essentials, and consists of products such as women's intimate apparel, men's underwear, kids' underwear, socks, thermals and sleepwear, marketed under well-known brands that are trusted by consumers. We are an intimate apparel category leader in the United States with our *Hanes, Playtex, Bali, Just My Size, barely there*, and *Wonderbra* brands. We are also a leading manufacturer and marketer of men's underwear and kids' underwear under the *Hanes* and *Champion* brand names. Our net sales for the nine months ended September 27, 2008 from our Innerwear segment were \$1.8 billion, representing approximately 56% of total segment net sales.

*Outerwear.* We are a leader in the casualwear and activewear markets through our *Hanes, Champion* and *Just My Size* brands, where we offer products such as t-shirts and fleece. Our casualwear lines offer a range of quality, comfortable clothing for men, women and children marketed under the *Hanes* and *Just My Size* brands. The *Just My Size* brand offers casual apparel designed exclusively to meet the needs of plus-size women. In addition to activewear for men and women, *Champion* provides uniforms for athletic programs and includes an apparel program, *C9 by Champion*, at Target stores. We also license our *Champion* name for collegiate apparel and footwear. We also supply our t-shirts, sportshirts and fleece products primarily to wholesalers, who then resell to screen printers and embellishers, through brands such as *Hanes, Champion* and *Outer Banks*. Our net sales for the nine months ended September 27, 2008 from our Outerwear segment were \$881 million, representing approximately 27% of total segment net sales.

*Hosiery.* We are the leading marketer of women's sheer hosiery in the United States. We compete in the hosiery market by striving to offer superior values and executing integrated marketing activities, as well as focusing on the style of our hosiery products. We market hosiery products under our *Hanes, L'eggs* and *Just My Size* brands. Our net sales for the nine months ended September 27, 2008 from our Hosiery segment were



\$167 million, representing approximately 5% of total segment net sales. We expect the trend of declining hosiery sales to continue consistent with the overall decline in the industry and with shifts in consumer preferences.

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*International.* International includes products that span across the Innerwear, Outerwear and Hosiery reportable segments and are marketed under the *Hanes*, *Champion*, *Wonderbra*, *Playtex*, *Rinbros*, *Bali* and *Stedman* brands. Our net sales for the nine months ended September 27, 2008 from our International segment were \$352 million, representing approximately 11% of total segment net sales and included sales in Latin America, Asia, Canada and Europe. Canada, Europe, Japan and Mexico are our largest international markets, and we also have sales offices in India and China.

*Other.* Our net sales for the nine months ended September 27, 2008 in our Other segment were \$20 million, representing approximately 1% of total segment net sales and are 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 generate break even margins. Net sales from our Other segment are expected to continue to decline during the remainder of this year and to ultimately become insignificant to us.

Our operating results are subject to some variability. 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 a 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. For example, we experienced a shift in timing by our largest retail customers of back-to-school programs from June to July in 2008. Our results of operations are also impacted by fluctuations and volatility in the price of cotton and the timing of actual spending for our media, advertising and promotion expenses. 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.

Our operating results are also impacted by economic factors, some of which are beyond our control. Inflation can have a long-term impact on us because increasing costs of materials and labor may impact our ability to maintain satisfactory margins. In addition, inflation often is accompanied by higher interest rates, which could have a negative impact on spending, in which case our margins could decrease. Moreover, increases in inflation may not be matched by rises in income, which also could have a negative impact on spending. If we incur increased costs that are unable to be recouped, or if consumer spending decreases generally, our business, results of operations, financial condition and cash flows may be adversely affected. In an effort to mitigate the impact of these incremental costs on our operating results, we have informed our retail customers that we are raising domestic prices effective during the first quarter of 2009. We are implementing an average gross price increase of four percent in our domestic product categories. The range of price increases varies by individual product category.

**Highlights from the Third Quarter and Nine Months Ended September 27, 2008**

Diluted earnings per share were \$0.17 in the third quarter of 2008, compared with \$0.40 in the same quarter in 2007. Diluted earnings per share were \$1.14 in the nine month period in 2008, compared with \$0.79 in the same nine month period in 2007.

Operating profit was \$58 million in the third quarter of 2008, compared with \$106 million in the same quarter in 2007. Operating profit was \$259 million in the nine month period in 2008, compared with \$263 million in the same nine month period in 2007.

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Total net sales in the third quarter of 2008 of \$1.15 billion were comparable to the same quarter in 2007. Total net sales in the nine month period in 2008 were lower by \$102 million at \$3.21 billion compared to the same nine month period in 2007.

During the first nine months of 2008, we approved actions to close 11 manufacturing facilities and two distribution centers in El Salvador, Mexico, Costa Rica, Honduras and the United States. The production capacity represented by the manufacturing facilities will be relocated to lower cost locations

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in Asia, the Caribbean Basin and Central America. The distribution capacity will be relocated to our West Coast distribution facility in California in order to expand capacity for goods we source from Asia. In addition, we completed several such actions in the first nine months of 2008 that were approved in 2007.

Capital expenditures were \$123 million during the first nine months of 2008 as we continued to build out our textile and sewing network in Asia, the Caribbean Basin and Central America.

We repurchased \$30 million of company stock during the first nine months of 2008.

We ended the third quarter of 2008 with \$443 million of borrowing availability under our revolving loan facility, \$86 million in cash and cash equivalents and \$47 million of borrowing availability under our international loan facilities.

**Condensed Consolidated Results of Operations Third Quarter Ended September 27, 2008 Compared with Third Quarter Ended September 29, 2007**

	Quarter Ended		Higher (Lower)	Percent Change
	September 27, 2008	September 29, 2007		
	(dollars in thousands)			
Net sales	\$ 1,153,635	\$ 1,153,606	\$ 29	0.0%
Cost of sales	811,851	792,587	19,264	2.4
Gross profit	341,784	361,019	(19,235)	(5.3)
Selling, general and administrative expenses	255,228	253,233	1,995	0.8
Restructuring	28,355	2,062	26,293	NM
Operating profit	58,201	105,724	(47,523)	(45.0)
Other expenses		889	(889)	NM
Interest expense, net	37,253	49,270	(12,017)	(24.4)
Income before income tax expense	20,948	55,565	(34,617)	(62.3)
Income tax expense	5,028	16,669	(11,641)	(69.8)
Net income	\$ 15,920	\$ 38,896	\$ (22,976)	(59.1)%

**Net Sales**

	Quarter Ended		Higher (Lower)	Percent Change
	September 27, 2008	September 29, 2007		
	(dollars in thousands)			
Net sales	\$ 1,153,635	\$ 1,153,606	\$ 29	0.0%

Consolidated net sales in the third quarter of 2008 were comparable to 2007. Sales levels were impacted by softer sales at retail and, as anticipated, lower Other segment sales offset by a shift in timing by our largest retail customers

of back-to-school programs from June to July in 2008. Our Innerwear and International segment net sales were higher by \$15 million (2%) and \$13 million (13%), respectively, and were offset by lower net sales in our Outerwear, Hosiery and Other segments of \$1 million (0%), \$14 million (22%) and \$9 million (65%), respectively, and higher intersegment sales eliminations of \$5 million. 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, softness in the retail environment can impact our results in the short-term, as it did in the third quarter of 2008. Softer sales at retail during the third quarter of 2008 were reflective of a difficult economic and retail environment in which the ultimate consumers of our products have been significantly limiting their discretionary spending and visiting retail stores less frequently.

The higher net sales in our Innerwear segment were primarily due to an increase in sales in the *Hanes* brand male underwear product category of \$23 million, which includes the impact of exiting a license

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arrangement for a boys character underwear program in early 2008 that lowered sales by \$4 million. Net sales of our *Playtex* brand intimate apparel were \$11 million higher and net sales of our *Bali* brand intimate apparel were flat in the third quarter of 2008 compared to 2007. In addition, we experienced a shift in timing by our largest retail customers of back-to-school programs from June to July in 2008, which primarily impacted our underwear, socks and intimate apparel product categories. The amount of our back-to-school shipments that shifted from June to July 2008 was approximately \$25 million. Intimate apparel sales in our secondary brands (*barely there*, *Wonderbra* and *Just My Size*) were lower by \$13 million which we believe was primarily attributable to softer sales at retail as noted above. In addition, intimate apparel sales in our *Hanes* brand were lower by \$7 million.

The higher net sales in our International segment were driven by a favorable impact of \$7 million related to foreign currency exchange rates and by the growth in our casualwear businesses in Europe and Asia and our male underwear business in Canada. The favorable impact of foreign currency exchange rates was primarily due to the strengthening of the Euro, Japanese yen and Brazilian real.

In our Outerwear segment, net sales of our *Champion* brand activewear increased by double digits in the third quarter of 2008 compared to 2007, and were offset by lower net sales of our casualwear product categories. Net sales in our Hosiery segment declined substantially more than the long-term trend primarily due to lower sales of our *L eggs* brand to mass retailers and food and drug stores and our *Hanes* brand to national chains and department stores in the third quarter of 2008 compared to last year. 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 decline in net sales for our Other segment is primarily due to the continued vertical integration of a yarn and fabric operation acquisition from 2006 with less focus on sales of nonfinished fabric and yarn to third parties. We expect this decline to continue during the remainder of this year and sales for this segment to ultimately become insignificant to us.

**Gross Profit**

	<b>Quarter Ended</b>		<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>September 27, 2008</b>	<b>September 29, 2007</b>		
	<b>(dollars in thousands)</b>			
Gross profit	\$ 341,784	\$ 361,019	\$ (19,235)	(5.3)%

As a percent of net sales, our gross profit percentage was 29.6% in the third quarter of 2008 compared to 31.3% in 2007. The lower gross profit percentage was primarily due to one-time restructuring related write-offs of stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate of \$14 million in the third quarter of 2008 offset by lower accelerated depreciation of \$8 million in connection with the consolidation and globalization of our supply chain. In addition, we experienced higher production costs of \$7 million related to higher energy and oil related costs including freight costs, higher cotton costs of \$12 million, \$6 million of unfavorable timing in cost recognition that is expected to reverse in the fourth quarter, unfavorable product sales mix of \$5 million, other vendor price increases of \$4 million, lower sales volume of \$4 million and higher other manufacturing overhead costs of \$3 million.

The cotton prices reflected in our results were 69 cents per pound in the third quarter of 2008 as compared to 57 cents per pound in 2007. After taking into consideration the cotton costs currently included in inventory, we expect our cost of cotton to average 66 cents per pound for the full year 2008.

These higher expenses were partially offset by \$7 million of savings from our cost reduction initiatives and prior restructuring actions, lower on-going excess and obsolete inventory costs of \$7 million, lower sales incentives of \$6 million, lower start-up and shut down costs associated with our consolidation and globalization of our supply chain of \$3 million, a favorable impact related to foreign currency exchange rates of \$3 million and higher product sales pricing of \$2 million. The favorable foreign currency exchange rate impact in our International segment was primarily due to the strengthening of the Euro, Japanese yen and Brazilian real.

**Table of Contents*****Selling, General and Administrative Expenses***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Selling, general and administrative expenses	\$ 255,228	\$ 253,233	\$ 1,995	0.8%

Our selling, general and administrative expenses were \$2 million higher in the third quarter of 2008 compared to 2007. Our cost reduction efforts resulted in lower expenses in the third quarter of 2008 compared to 2007 related to lower technology consulting expenses of \$4 million, savings of \$3 million from our prior restructuring actions primarily for compensation and related benefits, lower accelerated depreciation of \$3 million, lower media related media, advertising and promotion expenses ( MAP ) of \$2 million and lower non-media related MAP expenses of \$2 million. MAP 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. In addition, \$2 million of spin off and related charges recognized in the third quarter of 2007 did not recur in 2008.

The above lower expenses were offset by higher bad debt expense of \$7 million primarily related to the bankruptcy of Mervyn's LLC and its affiliated entities ( Mervyn's ), higher distribution expenses of \$2 million and higher computer software amortization expense of \$2 million in the third quarter of 2008 compared to 2007. Approximately half of the higher distribution expenses in the third quarter of 2008 compared to 2007 were postage and freight related and the other half related to rework expenses in our distribution centers. Our pension income of \$3 million was lower by \$4 million which is primarily attributable to an adjustment that reduced pension expense in 2007 related to the final separation of our pension assets and liabilities from those of Sara Lee Corporation ( Sara Lee ). We also incurred higher expenses of \$1 million in the third quarter of 2008 compared to 2007 as a result of opening 10 retail stores over the last 12 months. In addition, we incurred \$2 million in amortization of gain on curtailment of postretirement benefits in the third quarter of 2007 which did not recur in 2008.

Our cost reduction efforts have allowed us to offset investments in our strategic initiatives which were \$6 million lower in the third quarter of 2008 compared to 2007 for media related MAP expenses and technology consulting expenses.

***Restructuring***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Restructuring	\$ 28,355	\$ 2,062	\$ 26,293	NM

During the third quarter of 2008, we approved actions to close nine manufacturing facilities and eliminate approximately 8,100 positions in El Salvador, Mexico, Costa Rica, Honduras and the United States during the next twelve months. The production capacity represented by the manufacturing facilities will be relocated to lower cost locations in Asia, the Caribbean Basin and Central America. We recorded a charge of \$21 million that was primarily attributable to employee termination and other benefits recognized in accordance with benefit plans previously



communicated to the affected employee group and \$9 million in charges related to exiting supply contracts, which was partially offset by a \$2 million favorable settlement of a lease obligation for a lower amount than previously estimated.

In the third quarter of 2008, we recorded \$14 million in one-time 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 the nine manufacturing facilities in the Cost of sales line. In addition, in connection with our consolidation and globalization strategy, in the third quarters of 2008 and 2007, we recognized non-cash charges of \$4 million and \$12 million, respectively, in the Cost of sales line and a non-cash credit of \$2 million and a non-cash charge of \$1 million, respectively, in the Selling, general and administrative

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expenses line in the third quarters of 2008 and 2007 related to accelerated depreciation of buildings and equipment for facilities that have been closed or will be closed.

These actions, which are a continuation of our consolidation and globalization strategy, are expected to result in benefits of moving production to lower-cost manufacturing facilities, leveraging our large scale in high-volume products and consolidating production capacity.

During the third quarter of 2007, we incurred \$2 million in restructuring charges which primarily related to employee termination and other benefits associated with previously approved actions for plant closures.

***Operating Profit***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Operating profit	\$ 58,201	\$ 105,724	\$ (47,523)	(45.0)%

Operating profit was lower in the third quarter of 2008 primarily as a result of higher restructuring and related charges for nine facility closures of \$29 million and lower gross profit due to increases in manufacturing input costs for cotton, freight and energy and other oil related costs, all of which exceeded our savings from executing our consolidation and globalization strategy during the third quarter of 2008.

***Other Expenses***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Other expenses	\$	\$ 889	\$ (889)	NM

During the third quarter of 2007, we recognized a loss on early extinguishment of debt related to unamortized debt issuance costs on our senior secured credit facility for the prepayment of \$75 million of principal in September 2007.

***Interest Expense, Net***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Interest expense, net	\$ 37,253	\$ 49,270	\$ (12,017)	(24.4)%

Interest expense, net was lower by \$12 million in the third quarter of 2008 compared to 2007. The lower interest expense is primarily attributable to a lower weighted average interest rate, \$9 million of which resulted from a lower LIBOR and \$1 million of which resulted from reduced interest rates achieved through changes in our financing structure such as our accounts receivable securitization that we entered into in November 2007. In addition, interest expense was reduced by \$2 million as a result of our net prepayments of long-term debt during 2007 of \$178 million.

Our weighted average interest rate on our outstanding debt was 5.80% during the third quarter of 2008 compared to 7.71% in 2007.

During the third quarter of 2008, we terminated an interest rate cap with a notional amount of \$250 million and a capped interest rate of 5.75%. At September 27, 2008, we had outstanding interest rate hedging arrangements whereby we have capped the interest rate on \$700 million of our floating rate debt at 5.75% and had fixed the interest rate on \$600 million of our floating rate debt at 5.04%. Approximately 56% of our total debt outstanding at September 27, 2008 was at a fixed or capped rate.

During and subsequent to the third quarter of 2008, we entered into additional interest rate hedging arrangements that will become effective during the fourth quarter of 2008 that, combined with expirations of other portions of our interest rate derivative portfolio, will result in approximately 86% of our floating rate debt bearing interest at a fixed or capped rate. Once these interest rate hedging arrangements become effective

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in the fourth quarter of 2008, the interest rate on \$600 million of our floating rate debt will be capped at 3.50% and the interest rate on \$1.4 billion of our floating rate debt will be fixed at a weighted average rate of 4.17%.

***Income Tax Expense***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Income tax expense	\$ 5,028	\$ 16,669	\$ (11,641)	(69.8)%

Our estimated annual effective income tax rate was 24% in the third quarter of 2008 compared to 30% in 2007. The lower effective income tax expense is primarily attributable to lower pre-tax income and higher unremitted earnings from foreign subsidiaries in the third quarter of 2008 taxed at rates less than the U.S. statutory rate. Our estimated annual effective tax rate is reflective of our strategic initiative to make substantial capital investments outside the United States in our global supply chain in 2008.

***Net Income***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net income	\$ 15,920	\$ 38,896	\$ (22,976)	(59.1)%

Net income for the third quarter of 2008 was lower than 2007 primarily due to lower operating profit resulting in part from higher restructuring and related charges and higher manufacturing input costs, which were partially offset by savings from our cost reduction initiatives, lower interest expense and a lower income tax expense.

**Table of Contents****Operating Results by Business Segment Third Quarter Ended September 27, 2008 Compared with Third Quarter Ended September 29, 2007**

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
<b>Net sales:</b>				
Innerwear	\$ 650,372	\$ 635,167	\$ 15,205	2.4%
Outerwear	348,467	349,352	(885)	(0.3)
Hosiery	50,197	64,120	(13,923)	(21.7)
International	116,581	103,341	13,240	12.8
Other	4,769	13,587	(8,818)	(64.9)
Total segment net sales	1,170,386	1,165,567	4,819	0.4
Intersegment	(16,751)	(11,961)	4,790	40.0
Total net sales	\$ 1,153,635	\$ 1,153,606	\$ 29	(0.0)%
<b>Segment operating profit:</b>				
Innerwear	\$ 71,097	\$ 63,173	\$ 7,924	12.5%
Outerwear	19,243	36,051	(16,808)	(46.6)
Hosiery	13,081	18,670	(5,589)	(29.9)
International	14,010	9,616	4,394	45.7
Other	314	(306)	620	202.6
Total segment operating profit	\$ 117,745	\$ 127,204	\$ (9,459)	(7.4)%
<b>Items not included in segment operating profit:</b>				
General corporate expenses	\$ (12,593)	\$ (5,225)	\$ 7,368	141.0%
Amortization of trademarks and other intangibles	(3,045)	(1,442)	1,603	111.2
Restructuring	(28,355)	(2,062)	26,293	NM
Inventory write-off included in cost of sales	(14,027)	(186)	13,841	NM
Accelerated depreciation included in cost of sales	(4,011)	(11,616)	(7,605)	(65.5)
Accelerated depreciation included in selling, general and administrative expenses	2,487	(949)	(3,436)	(362.1)
Total operating profit	58,201	105,724	(47,523)	(45.0)
Other expenses		(889)	(889)	NM
Interest expense, net	(37,253)	(49,270)	(12,017)	(24.4)
Income before income tax expense	\$ 20,948	\$ 55,565	\$ (34,617)	(62.3)%

**Table of Contents*****Innerwear***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net sales	\$ 650,372	\$ 635,167	\$ 15,205	2.4%
Segment operating profit	71,097	63,173	7,924	12.5

Overall net sales in the Innerwear segment were higher by \$15 million or 2% in the third quarter of 2008 compared to 2007. The higher net sales were primarily due to an increase in the *Hanes* brand male underwear product category of \$23 million, which includes the impact of exiting a license arrangement for a boys' character underwear program in early 2008 that lowered sales by \$4 million. Net sales of our *Playtex* brand intimate apparel were \$11 million higher and net sales of our *Bali* brand intimate apparel were flat in the third quarter of 2008 compared to 2007. In addition, we experienced a shift in timing by our largest retail customers of back-to-school programs from June to July in 2008, which primarily impacted our underwear, socks and intimate apparel product categories. The amount of our back-to-school shipments that shifted from June to July 2008 was approximately \$25 million. Intimate apparel sales in our secondary brands (*barely there*, *Wonderbra* and *Just My Size*) were lower by \$13 million which we believe was primarily attributable to softer sales at retail. In addition, intimate apparel sales in our *Hanes* brand were lower by \$7 million.

As a percent of segment net sales, gross profit percentage in the Innerwear segment was 34.4% in the third quarter of 2008 compared to 35.7% in 2007. The lower gross profit is primarily attributable to higher cotton costs of \$5 million, higher production costs of \$3 million, other vendor price increases of \$2 million and higher other manufacturing overhead costs of \$2 million. The higher production costs were related to higher energy and oil related costs including freight costs. These factors were partially offset by lower sales incentives of \$5 million and lower on-going excess and obsolete inventory costs of \$4 million.

The higher Innerwear segment operating profit in the third quarter of 2008 compared to 2007 is primarily attributable to lower media related MAP expenses of \$7 million, lower non-media related MAP expenses of \$4 million, savings from prior restructuring actions of \$2 million and lower technology consulting expenses of \$2 million partially offset by lower gross profit and higher bad debt expense of \$4 million primarily related to the Mervyn's bankruptcy. In addition, we incurred higher expenses of \$1 million in the third quarter of 2008 compared to 2007 as a result of opening 10 retail stores over the last 12 months. 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 each segment. The allocation methodology for the consolidated selling, general and administrative expenses for the third quarter of 2008 is consistent with 2007. Our consolidated selling, general and administrative expenses before segment allocations was \$2 million higher in the third quarter of 2008 compared to 2007.

***Outerwear***

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net sales	\$ 348,467	\$ 349,352	\$ (885)	(0.3)%
Segment operating profit	19,243	36,051	(16,808)	(46.6)

Net sales in the Outerwear segment were slightly lower by \$1 million in the third quarter of 2008 compared to 2007 primarily as a result of higher net sales of *Champion* brand activewear of \$17 million and higher intersegment sales of \$3 million offset by lower net sales of retail casualwear of \$17 million and lower net sales through our embellishment channel of \$6 million, primarily in promotional t-shirts, offset by higher fleece sales.

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As a percent of segment net sales, gross profit percentage in the Outerwear segment was 21.1% in the third quarter of 2008 compared to 23.6% in 2007. The lower gross profit is primarily attributable to higher cotton costs of \$7 million, \$6 million of unfavorable timing in cost recognition that is expected to reverse in the fourth quarter, higher production costs of \$4 million, other vendor price increases of \$1 million and unfavorable product sales mix of \$1 million partially offset by savings from our cost reduction initiatives and prior restructuring actions of \$5 million, higher product sales pricing of \$3 million and lower on-going excess and obsolete inventory costs of \$2 million. The higher production costs were related to higher energy and oil related costs including freight costs.

The lower Outerwear segment operating profit in the third quarter of 2008 compared to 2007 is primarily attributable to lower gross profit, higher media related MAP expenses of \$4 million, higher bad debt expense of \$2 million primarily related to the Mervyn's bankruptcy, higher non-media related MAP expenses of \$2 million and higher distribution expenses of \$1 million. 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 each segment. The allocation methodology for the consolidated selling, general and administrative expenses for the third quarter of 2008 is consistent with 2007. Our consolidated selling, general and administrative expenses before segment allocations was \$2 million higher in the third quarter of 2008 compared to 2007.

**Hosiery**

	<b>Quarter Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net sales	\$ 50,197	\$ 64,120	\$ (13,923)	(21.7)%
Segment operating profit	13,081	18,670	(5,589)	(29.9)

Net sales in the Hosiery segment declined by \$14 million or 22%, which was substantially more than the long-term trend primarily due to lower sales of our *Leggs* brand to mass retailers and food and drug stores and lower sales of the *Hanes* brand to national chains and department stores. We expect the trend of declining hosiery sales to continue consistent with the overall decline in the industry and with shifts in consumer preferences.

As a percent of segment net sales, gross profit percentage was 42.4% in the third quarter of 2008 compared to 46.4% in 2007 primarily due to unfavorable sales mix of \$5 million, lower sales volume of \$4 million and other vendor price increases of \$1 million partially offset by savings from our cost reduction initiatives and prior restructuring actions of \$1 million and lower sales incentives of \$1 million.

Hosiery segment operating profit was lower in the third quarter of 2008 compared to 2007 primarily due to lower gross profit partially offset by lower distribution expenses of \$1 million. 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 each segment. The allocation methodology for the consolidated selling, general and administrative expenses for the third quarter of 2008 is consistent with 2007. Our consolidated selling, general and administrative expenses before segment allocations was \$2 million higher in the third quarter of 2008 compared to 2007.



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

	Quarter Ended			Percent Change
	September 27, 2008	September 29, 2007	Higher (Lower)	
			(dollars in thousands)	
Net sales	\$ 116,581	\$ 103,341	\$ 13,240	12.8%
Segment operating profit	14,010	9,616	4,394	45.7

Overall net sales in the International segment were higher by \$13 million or 13% in the third quarter of 2008 compared to 2007. During the third quarter of 2008 our net sales were higher, in each case including the impact of foreign currency, in Asia of \$5 million, Europe of \$4 million and Canada of \$3 million. The growth in our European casualwear business was driven by the strength of the *Stedman* brand that is sold in the embellishment channel. Higher sales in our *Champion* brand casualwear business in Asia and our *Hanes* brand male underwear business in Canada also contributed to the sales growth. Changes in foreign currency exchange rates had a favorable impact on net sales of \$7 million in the third quarter of 2008 compared to 2007. The favorable impact was primarily due to the strengthening of the Euro, Japanese yen and Brazilian real.

As a percent of segment net sales, gross profit percentage was 40.1% in the third quarter of 2008 compared to 39.2% in 2007. The higher gross profit was primarily attributable to a favorable impact related to foreign currency exchange rates of \$3 million and favorable product sales mix of \$3 million.

The higher International segment operating profit in the third quarter of 2008 compared to 2007 is primarily attributable to the higher gross profit partially offset by higher distribution expenses of \$1 million. Changes in foreign currency exchange rates, which are included in the impact on gross profit above, had a favorable impact on segment operating profit of \$1 million in the third quarter of 2008 compared to 2007.

**Other**

	Quarter Ended			Percent Change
	September 27, 2008	September 29, 2007	Higher (Lower)	
			(dollars in thousands)	
Net sales	\$ 4,769	\$ 13,587	\$ (8,818)	(64.9)%
Segment operating profit	314	(306)	620	202.6

Overall lower net sales from our Other segment were primarily due to the continued vertical integration of a yarn and fabric operation acquisition from 2006 with less focus on sales of nonfinished fabric and yarn to third parties. We expect this decline to continue during the remainder of this year and sales for this segment to ultimately become insignificant to us. Net sales in this segment are generated for the purpose of maintaining asset utilization at certain manufacturing facilities and generating break even margins.

**General Corporate Expenses**

General corporate expenses were higher in the third quarter of 2008 compared to 2007 primarily due to \$7 million of lower net cost allocations to the segments, a \$5 million adjustment that reduced pension expense in 2007 related to the final separation of our pension assets and liabilities from those of Sara Lee, \$2 million in amortization of gain on curtailment of postretirement benefits in the third quarter of 2007 which did not recur in 2008 and \$2 million in losses

from foreign currency derivatives partially offset by \$4 million of higher gains on sales of assets, lower start-up and shut down costs associated with our consolidation and globalization of our supply chain of \$3 million and \$2 million of spin off and related charges recognized in the third quarter of 2007 which did not recur in 2008.

**Table of Contents****Condensed Consolidated Results of Operations Nine Months Ended September 27, 2008 Compared with Nine Months Ended September 29, 2007**

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net sales	\$ 3,213,653	\$ 3,315,407	\$ (101,754)	(3.1)%
Cost of sales	2,145,949	2,234,352	(88,403)	(4.0)
Gross profit	1,067,704	1,081,055	(13,351)	(1.2)
Selling, general and administrative expenses	776,267	773,817	2,450	0.3
Restructuring	32,355	44,533	(12,178)	(27.3)
Operating profit	259,082	262,705	(3,623)	(1.4)
Other expenses		1,440	(1,440)	NM
Interest expense, net	115,282	152,217	(36,935)	(24.3)
Income before income tax expense	143,800	109,048	34,752	31.9
Income tax expense	34,512	32,714	1,798	5.5
Net income	\$ 109,288	\$ 76,334	\$ 32,954	43.2%

**Net Sales**

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net sales	\$ 3,213,653	\$ 3,315,407	\$ (101,754)	(3.1)%

Consolidated net sales were lower by \$102 million or 3% in the nine months of 2008 compared to 2007 primarily due to softer sales at retail which are reflective of a difficult economic and retail environment in which the ultimate consumers of our products have been significantly limiting their discretionary spending and visiting retail stores less frequently. Our Innerwear, Outerwear, Hosiery and Other segment net sales were lower by \$87 million (5%), \$16 million (2%), \$23 million (12%) and \$27 million (57%), respectively, and were partially offset by higher net sales in our International segment of \$49 million (16%). 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, softness in the retail environment can impact our results in the short-term, as it did in the nine months of 2008.

The lower net sales in our Innerwear segment were primarily due to a decline in the intimate apparel, socks, sleepwear and thermals product categories. Total intimate apparel net sales were \$64 million lower in the nine months of 2008 compared to 2007. We experienced lower intimate apparel sales in our secondary brands (*barely there*, *Just My Size*, and *Wonderbra*) of \$36 million, our *Hanes* brand of \$31 million and our private label brands of \$9 million which we believe was primarily attributable to softer sales at retail as noted above. In the nine months of 2008 compared to 2007, our *Playtex* brand intimate apparel net sales were higher by \$16 million and our *Bali* brand intimate apparel net

sales were lower by \$4 million. We have experienced higher net sales in our male underwear product category of \$3 million, which includes the impact of exiting a license arrangement for a boys character underwear program in early 2008 that lowered sales by \$11 million. In addition, net sales of socks, sleepwear and thermals product categories were lower in the nine months of 2008 compared to 2007 by \$15 million, \$6 million and \$6 million, respectively.

In our Outerwear segment, net sales of our *Champion* brand activewear were higher in the nine months of 2008 compared to 2007, and were offset by lower net sales of our casualwear product categories. Net sales in our Hosiery segment declined substantially more than the long-term trend primarily due to lower sales of the *Hanes* brand to national chains and department stores and our *L eggs* brand to mass retailers and food and

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drug stores in the nine months of 2008 compared to last year. 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 overall lower net sales were partially offset by higher net sales in our International segment that were driven by a favorable impact of \$31 million related to foreign currency exchange rates and by the growth in our casualwear businesses in Europe and Asia and our male underwear business in Canada. The favorable impact of foreign currency exchange rates was primarily due to the strengthening of the Euro, Japanese yen, Canadian dollar and Brazilian real.

The decline in net sales for our Other segment is primarily due to the continued vertical integration of a yarn and fabric operation acquisition from 2006 with less focus on sales of nonfinished fabric and yarn to third parties. We expect this decline to continue during the remainder of this year and sales for this segment to ultimately become insignificant to us.

**Gross Profit**

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Gross profit	\$ 1,067,704	\$ 1,081,055	\$ (13,351)	(1.2)%

As a percent of net sales, our gross profit percentage was 33.2% in the nine months of 2008 compared to 32.6% in 2007. While the gross profit percentage was higher, gross profit dollars were lower for the nine months of 2008 compared to 2007 primarily as a result of lower sales. The lower gross profit is primarily attributable to \$46 million of lower sales volume, higher cotton costs of \$13 million, \$11 million of higher production costs related to higher energy and oil related costs including freight costs, unfavorable product sales mix of \$7 million, other vendor price increases of \$7 million, \$6 million of higher freight costs due to a greater use of air freight and \$6 million of unfavorable timing in cost recognition that is expected to reverse in the fourth quarter. In addition, in connection with the consolidation and globalization of our supply chain we incurred one-time restructuring related write-offs of stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate of \$14 million in 2008 which were offset by lower accelerated depreciation of \$18 million.

The cotton prices reflected in our results were 62 cents per pound in the nine months of 2008 as compared to 57 cents per pound in 2007. After taking into consideration the cotton costs currently included in inventory, we expect our cost of cotton to average 66 cents per pound for the full year 2008.

These higher expenses were primarily offset by \$31 million of savings from our cost reduction initiatives and prior restructuring actions, a \$13 million favorable impact related to foreign currency exchange rates, lower sales incentives of \$11 million, lower other manufacturing overhead costs of \$12 million, lower on-going excess and obsolete inventory costs of \$8 million and \$4 million of lower start-up and shut down costs associated with our consolidation and globalization of our supply chain. The favorable foreign currency exchange rate impact in our International segment was primarily due to the strengthening of the Euro, Japanese yen, Canadian dollar and Brazilian real.

**Selling, General and Administrative Expenses**

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			

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Selling, general and administrative expenses	\$ 776,267	\$ 773,817	\$ 2,450	0.3%
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Our selling, general and administrative expenses were \$2 million higher in the nine months of 2008 compared to 2007. Our cost reduction efforts resulted in lower expenses in the nine months of 2008 compared to 2007 related to savings of \$16 million from our prior restructuring actions primarily for compensation and related benefits, lower non-media related MAP expenses of \$5 million, lower stock compensation expense of

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\$4 million and lower accelerated depreciation of \$3 million. In addition, spin off and related charges of \$3 million recognized in 2007 did not recur in 2008. In addition, our pension income of \$8 million was higher by \$4 million which included an adjustment that reduced pension expense in 2007 related to the final separation of our pension assets and liabilities from those of Sara Lee.

Our media related MAP expenses were \$4 million higher in the nine months of 2008 primarily to support the launch of *Hanes No Ride Up Panties* and marketing initiatives for *Champion* and *Playtex* in the first half of 2008. MAP 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. We experienced higher technology consulting and related expenses of \$11 million, higher computer software amortization of \$4 million, higher distribution expenses of \$5 million and higher bad debt expense of \$7 million primarily related to the Mervyn's bankruptcy in the nine months of 2008 compared to 2007. Approximately half of the higher distribution expenses in the third quarter of 2008 compared to 2007 were postage and freight related and the other half related to rework expenses in our distribution centers. We also incurred higher expenses of \$2 million in the nine months of 2008 compared to 2007 as a result of opening 10 retail stores over the last 12 months. In addition, we incurred \$6 million in amortization of gain on curtailment of postretirement benefits in the nine months of 2007 which did not recur in 2008.

Our cost reduction efforts have allowed us to offset higher investments in our strategic initiatives of higher technology consulting expenses of \$6 million and higher MAP expenses of \$4 million during the nine months of 2008 compared to 2007.

**Restructuring**

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Restructuring	\$ 32,355	\$ 44,533	\$ (12,178)	(27.3)%

During the nine month period in 2008, we approved actions to close 11 manufacturing facilities and two distribution centers and eliminate approximately 9,400 positions in El Salvador, Mexico, Costa Rica, Honduras and the United States during the next twelve months. The production capacity represented by the manufacturing facilities will be relocated to lower cost locations in Asia, the Caribbean Basin and Central America. The distribution capacity will be relocated to our West Coast distribution facility in California in order to expand capacity for goods we source from Asia. We recorded a charge of \$25 million that was primarily attributable to employee termination and other benefits recognized in accordance with benefit plans previously communicated to the affected employee group and \$9 million in charges related to exiting supply contracts, which was partially offset by a \$2 million favorable settlement of a lease obligation for a lower amount than previously estimated.

In the nine months of 2008, we recorded \$14 million in one-time 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 manufacturing facilities in the *Cost of sales* line. In addition, in connection with our consolidation and globalization strategy, in the nine months in 2008 and 2007, we recognized non-cash charges of \$11 million and \$29 million, respectively, in the *Cost of sales* line and a non-cash credit of \$1 million and a non-cash charge of \$2 million, respectively, in the *Selling, general and administrative expenses* line in the nine months of 2008 and 2007 related to accelerated depreciation of buildings and equipment for facilities that have been closed or will be closed.

These actions, which are a continuation of our consolidation and globalization strategy, are expected to result in benefits of moving production to lower-cost manufacturing facilities, leveraging our large scale in high-volume products and consolidating production capacity.

During the same nine months of 2007, we incurred \$45 million in restructuring charges which primarily related to a charge of \$35 million related to employee termination and other benefits associated with plant



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closures approved during that period and the elimination of certain management and administrative positions and a \$10 million charge for estimated lease termination costs associated with facility closures.

***Operating Profit***

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Operating profit	\$ 259,082	\$ 262,705	\$ (3,623)	(1.4)%

Operating profit was slightly lower in the nine months of 2008 compared to 2007 as a result of lower gross profit due to increases in manufacturing input costs for cotton, freight and energy and other oil related costs, all of which exceeded our savings from executing our consolidation and globalization strategy during the nine months of 2008, partially offset by lower restructuring and related charges for facility closures of \$20 million.

***Other Expenses***

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Other expenses	\$	\$ 1,440	\$ (1,440)	NM

During the nine months of 2007, we recognized losses on early extinguishment of debt related to unamortized debt issuance costs on our senior secured credit facility for the prepayment of \$50 million of principal in June 2007 and \$75 million of principal in September 2007.

***Interest Expense, Net***

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Interest expense, net	\$ 115,282	\$ 152,217	\$ (36,935)	(24.3)%

Interest expense, net was lower by \$37 million in the nine months of 2008 compared to 2007. The lower interest expense is primarily attributable to a lower weighted average interest rate, \$25 million of which resulted from a lower LIBOR and \$4 million of which resulted from reduced interest rates achieved through changes in our financing structure such as the February 2007 amendment to our senior secured credit facility and our accounts receivable securitization that we entered into in November 2007. In addition, interest expense was reduced by \$8 million as a result of our net prepayments of long-term debt during 2007 of \$178 million. Our weighted average interest rate on our outstanding debt was 6.17% during the nine months of 2008 compared to 7.82% in 2007.

During the third quarter of 2008, we terminated an interest rate cap with a notional amount of \$250 million and a capped interest rate of 5.75%. At September 27, 2008, we had outstanding interest rate hedging arrangements whereby we have capped the interest rate on \$700 million of our floating rate debt at 5.75% and had fixed the interest rate on \$600 million of our floating rate debt at 5.04%. Approximately 56% of our total debt outstanding at September 27,

2008 was at a fixed or capped rate.

During and subsequent to the third quarter of 2008, we entered into additional interest rate hedging arrangements that will become effective during the fourth quarter of 2008 that, combined with expirations of other portions of our interest rate derivative portfolio, will result in approximately 86% of our floating rate debt bearing interest at a fixed or capped rate. Once these interest rate hedging arrangements become effective in the fourth quarter of 2008, the interest rate on \$600 million of our floating rate debt will be capped at 3.50% and the interest rate on \$1.4 billion of our floating rate debt will be fixed at a weighted average rate of 4.17%.

**Table of Contents*****Income Tax Expense***

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Income tax expense	\$ 34,512	\$ 32,714	\$ 1,798	5.5%

Our estimated annual effective income tax rate was 24% in the nine months of 2008 compared to 30% in 2007. The higher income tax expense is attributable primarily to higher pre-tax income partially offset by a lower effective income tax rate. The lower effective income tax rate is primarily due to higher unremitted earnings from foreign subsidiaries in the nine months of 2008 taxed at rates less than the U.S. statutory rate. Our estimated annual effective tax rate is reflective of our strategic initiative to make substantial capital investments outside the United States in our global supply chain in 2008.

***Net Income***

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net income	\$ 109,288	\$ 76,334	\$ 32,954	43.2%

Net income for the nine months of 2008 was higher than 2007 primarily due to lower interest expense, lower restructuring and related charges and a lower effective income tax rate partially offset by lower gross profit resulting from higher manufacturing input costs.

**Table of Contents****Operating Results by Business Segment Nine Months Ended September 27, 2008 Compared with Nine Months Ended September 29, 2007**

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
<b>Net sales:</b>				
Innerwear	\$ 1,830,437	\$ 1,917,118	\$ (86,681)	(4.5)%
Outerwear	880,809	896,583	(15,774)	(1.8)
Hosiery	166,672	189,215	(22,543)	(11.9)
International	352,120	303,119	49,001	16.2
Other	20,064	46,629	(26,565)	(57.0)
Total segment net sales	3,250,102	3,352,664	(102,562)	(3.1)
Intersegment	(36,449)	(37,257)	(808)	(2.2)
Total net sales	\$ 3,213,653	\$ 3,315,407	\$ (101,754)	(3.1)%
<b>Segment operating profit:</b>				
Innerwear	\$ 204,714	\$ 243,821	\$ (39,107)	(16.0)%
Outerwear	55,587	54,453	1,134	2.1
Hosiery	52,944	52,849	95	0.2
International	47,662	34,321	13,341	38.9
Other	304	(17)	321	NM
Total segment operating profit	\$ 361,211	\$ 385,427	\$ (24,216)	(6.3)%
<b>Items not included in segment operating profit:</b>				
General corporate expenses	\$ (37,128)	\$ (42,294)	\$ (5,166)	(12.2)%
Amortization of trademarks and other intangibles	(8,683)	(4,516)	4,167	92.3
Restructuring	(32,355)	(44,533)	(12,178)	(27.3)
Inventory write-off included in cost of sales	(14,027)	(186)	13,841	NM
Accelerated depreciation included in cost of sales	(11,202)	(29,296)	(18,094)	(61.8)
Accelerated depreciation included in selling, general and administrative expenses	1,266	(1,897)	(3,163)	(166.7)
Total operating profit	259,082	262,705	(3,623)	(1.4)
Other expenses		(1,440)	(1,440)	NM
Interest expense, net	(115,282)	(152,217)	(36,935)	(24.3)
Income before income tax expense	\$ 143,800	\$ 109,048	\$ 34,752	31.9%

**Table of Contents****Innerwear**

	<b>Nine Months Ended</b>		<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>September 27, 2008</b>	<b>September 29, 2007</b>		
		<b>(dollars in thousands)</b>		
Net sales	\$ 1,830,437	\$ 1,917,118	\$ (86,681)	(4.5)%
Segment operating profit	204,714	243,821	(39,107)	(16.0)

Overall net sales in the Innerwear segment were lower by \$87 million or 5% in the nine months of 2008 compared to 2007. The lower net sales in our Innerwear segment were primarily due to a decline in the intimate apparel, socks, thermals and sleepwear product categories. We experienced softer sales at retail which resulted in lower intimate apparel sales in our secondary brands (*barely there*, *Just My Size* and *Wonderbra*) of \$36 million, lower *Hanes* brand intimate apparel sales of \$31 million and lower sales of private label brands of \$9 million. In the nine months of 2008 compared to 2007, our *Playtex* brand intimate apparel net sales were higher by \$16 million offset by lower *Bali* brand intimate apparel net sales of \$4 million. Lower net sales in our socks product category reflects a decline in our *Hanes* brand of \$10 million and *Champion* brand of \$5 million. In addition, net sales of sleepwear and thermals product categories were each lower in the nine months of 2008 compared to 2007 by \$6 million. Net sales were higher in our male underwear product category by \$3 million, which includes the impact of exiting a license arrangement for a boys character underwear program in early 2008 that lowered sales by \$11 million.

As a percent of segment net sales, gross profit percentage in the Innerwear segment was 37.1% in the nine months of 2008 compared to 37.6% in 2007. The lower gross profit is attributable to lower sales volume of \$37 million, unfavorable product sales mix of \$17 million, \$7 million of higher freight costs due to a greater use of air freight, higher production costs of \$5 million, lower product sales pricing of \$5 million, higher cotton costs of \$5 million, other vendor price increases of \$4 million and higher other manufacturing overhead costs of \$2 million. The higher production costs were related to higher energy and oil related costs including freight costs. These higher costs were offset by \$18 million of savings from our cost reduction initiatives and prior restructuring actions, lower sales incentives of \$12 million and lower on-going excess and obsolete inventory costs of \$9 million.

The lower Innerwear segment operating profit in the nine months of 2008 compared to 2007 is primarily attributable to lower gross profit, higher technology consulting and related expenses of \$6 million, higher bad debt expense of \$4 million primarily related to the Mervyn's bankruptcy and higher distribution expenses of \$2 million partially offset by savings from prior restructuring actions of \$11 million, lower non-media related MAP expenses of \$4 million and lower spending in various areas of \$2 million. In addition, we incurred higher expenses of \$2 million in the nine months of 2008 compared to 2007 as a result of opening 10 retail stores over the last 12 months. 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 each segment. The allocation methodology for the consolidated selling, general and administrative expenses for the nine months of 2008 is consistent with 2007. Our consolidated selling, general and administrative expenses before segment allocations was \$2 million higher in the nine months of 2008 compared to 2007.

**Outerwear**

	<b>Nine Months Ended</b>		<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>September 27, 2008</b>	<b>September 29, 2007</b>		
		<b>(dollars in thousands)</b>		

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Net sales	\$ 880,809	\$ 896,583	\$ (15,774)	(1.8)%
Segment operating profit	55,587	54,453	1,134	2.1

Net sales in the Outerwear segment were lower by \$16 million or 2% in the nine months of 2008 compared to 2007 primarily as a result of lower net sales of retail casualwear of \$29 million and lower net sales through our embellishment channel of \$16 million, primarily in promotional t-shirts, offset by higher

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fleece sales. These decreases were offset by higher net sales of *Champion* brand activewear of \$28 million and higher intersegment sales of \$2 million.

As a percent of segment net sales, gross profit percentage in the Outerwear segment was 23.1% in the nine months of 2008 compared to 21.7% in 2007. The improvement in gross profit is primarily attributable to savings from our cost reduction initiatives and prior restructuring actions of \$11 million, favorable product sales mix of \$11 million, lower other manufacturing overhead costs of \$11 million, higher product sales pricing of \$5 million and lower freight costs of \$2 million. These lower costs were partially offset by higher cotton costs of \$8 million, higher production costs of \$6 million, \$6 million of unfavorable timing in cost recognition that is expected to reverse in the fourth quarter, higher on-going excess and obsolete inventory costs of \$4 million, lower sales volume of \$4 million, higher sales incentives of \$2 million and other vendor price increases of \$1 million. The higher production costs were related to higher energy and oil related costs including freight costs.

The higher Outerwear segment operating profit in the nine months of 2008 compared to 2007 is primarily attributable to higher gross profit and savings from our cost reduction initiatives and prior restructuring actions of \$5 million partially offset by higher technology consulting and related expenses of \$4 million, higher distribution expenses of \$3 million, higher bad debt expense of \$2 million primarily related to the Mervyn's bankruptcy, higher media-related MAP expenses of \$1 million and higher non-media related MAP expenses of \$1 million. 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 each segment. The allocation methodology for the consolidated selling, general and administrative expenses for the nine months of 2008 is consistent with 2007. Our consolidated selling, general and administrative expenses before segment allocations was \$2 million higher in the nine months of 2008 compared to 2007.

**Hosiery**

	<b>Nine Months Ended</b>			
	<b>September 27, 2008</b>	<b>September 29, 2007</b>	<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>(dollars in thousands)</b>			
Net sales	\$ 166,672	\$ 189,215	\$ (22,543)	(11.9)%
Segment operating profit	52,944	52,849	95	0.2

Net sales in the Hosiery segment declined by \$23 million or 12%, which was substantially more than the long-term trend primarily due to lower sales of the *Hanes* brand to national chains and department stores and the *L eggs* brand to mass retailers and food and drug stores. We expect the trend of declining hosiery sales to continue consistent with the overall decline in the industry and with shifts in consumer preferences.

As a percent of segment net sales, gross profit percentage was 48.6% in the nine months of 2008 compared to 46.7% in 2007. While the gross profit percentage was higher, gross profit dollars were lower for the nine months of 2008 compared to 2007 as a result of unfavorable product sales mix of \$9 million, lower sales volume of \$6 million and other vendor price increases of \$2 million partially offset by savings from our cost reduction initiatives and prior restructuring actions of \$3 million, lower sales incentives of \$3 million, lower other manufacturing overhead costs of \$2 million and lower on-going excess and obsolete inventory costs of \$2 million.

Hosiery segment operating profit was flat in the nine months of 2008 compared to 2007 primarily due to lower distribution expenses of \$3 million and savings from our cost reduction initiatives and prior restructuring actions of

\$2 million and lower non-media related MAP expenses of \$1 million partially offset by the lower gross profit. 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 each segment. The allocation methodology for the consolidated selling, general and administrative expenses for the nine months of 2008 is consistent with 2007.



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Our consolidated selling, general and administrative expenses before segment allocations was \$2 million higher in the nine months of 2008 compared to 2007.

**International**

	<b>Nine Months Ended</b>		<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>September 27, 2008</b>	<b>September 29, 2007</b>		
	<b>(dollars in thousands)</b>			
Net sales	\$ 352,120	\$ 303,119	\$ 49,001	16.2%
Segment operating profit	47,662	34,321	13,341	38.9

Overall net sales in the International segment were higher by \$49 million or 16% in the nine months of 2008 compared to 2007. During the nine months of 2008, our net sales were higher, in each case including the impact of foreign currency, in Europe of \$19 million, Asia of \$12 million, Canada of \$11 million, and Latin America of \$8 million. The growth in our European casualwear business was driven by the strength of the *Stedman* brand that is sold in the embellishment channel. Higher sales in our *Champion* brand casualwear business in Asia and our *Hanes* brand male underwear business in Canada also contributed to the sales growth. Changes in foreign currency exchange rates had a favorable impact on net sales of \$31 million in the nine months of 2008 compared to 2007. The favorable impact was primarily due to the strengthening of the Euro, Japanese yen, Canadian dollar and Brazilian real.

As a percent of segment net sales, gross profit percentage was 40.9% in the nine months of 2008 compared to 2007 at 41.1%. While the gross profit percentage was lower, gross profit dollars were higher for the nine months of 2008 compared to 2007 as a result of a favorable impact related to foreign currency exchange rates of \$13 million and favorable product sales mix of \$8 million partially offset by higher sales incentives of \$2 million.

The higher International segment operating profit in the nine months of 2008 compared to 2007 is primarily attributable to the higher gross profit partially offset by higher distribution expenses of \$2 million, higher media-related MAP expenses of \$1 million and \$2 million of slightly higher spending in numerous areas. Changes in foreign currency exchange rates, which are included in the impact on gross profit above, had a favorable impact on segment operating profit of \$5 million in the nine months of 2008 compared to 2007.

**Other**

	<b>Nine Months Ended</b>		<b>Higher (Lower)</b>	<b>Percent Change</b>
	<b>September 27, 2008</b>	<b>September 29, 2007</b>		
	<b>(dollars in thousands)</b>			
Net sales	\$ 20,064	\$ 46,629	\$ (26,565)	(57.0)%
Segment operating profit	304	(17)	321	NM

Overall lower net sales from our Other segment were primarily due to the continued vertical integration of a yarn and fabric operation acquisition from 2006 with less focus on sales of nonfinished fabric and yarn to third parties. We expect this decline to continue during the remainder of this year and sales of this segment to ultimately become insignificant to us. Net sales in this segment are generated for the purpose of maintaining asset utilization at certain manufacturing facilities and generating break even margins.

**General Corporate Expenses**

General corporate expenses were lower in the nine months of 2008 compared to 2007 primarily due to \$5 million of higher gains on sales of assets, \$4 million of higher net cost allocations to the segments, \$4 million of lower start-up and shut-down costs associated with our consolidation and globalization of our supply chain, \$3 million of spin off and related charges recognized in the nine months of 2007 which did not recur in 2008 and \$2 million of higher foreign exchange transaction gains partially offset by \$6 million in amortization of gain on curtailment of postretirement benefits in the nine months of 2007 which did not recur

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in 2008, a \$5 million adjustment that reduced pension expense in 2007 related to the final separation of our pension assets and liabilities from those of Sara Lee and \$2 million in losses from foreign currency derivatives.

## **Liquidity and Capital Resources**

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

Our primary sources of liquidity are our cash generated by operations and availability under our revolving loan facility and our international loan facilities. At September 27, 2008, we have \$443 million of borrowing availability under our \$500 million revolving loan facility (after taking into account outstanding letters of credit), \$86 million in cash and cash equivalents and \$47 million of borrowing availability under our international loan facilities. 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 has or is expected to impact liquidity:

we have principal and interest obligations under our long-term debt;

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

we expect to continue to add new manufacturing capacity in Central America, the Caribbean Basin and Asia;

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

we have the authority to repurchase 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 September 27, 2008.

We expect to be able to manage our working capital levels and capital expenditure amounts so as to maintain sufficient levels of liquidity. Depending on conditions in the capital markets and other factors, we will from time to time consider other financing transactions, the proceeds of which could be used to refinance current indebtedness or for other purposes. We continue to monitor the impact, if any, of the current conditions in the credit markets on our operations. Our access to financing at reasonable interest rates could become influenced by the economic and credit market environment. Deterioration in the capital markets, which has caused many financial institutions to seek additional capital, merge with larger and stronger financial institutions and, in some cases, fail, has led to concerns about the stability of financial institutions. We currently hold interest rate cap and swap derivative instruments to mitigate a portion of our interest rate risk and hold foreign exchange rate derivative instruments to mitigate the potential impact of currency fluctuations. Credit risk is the exposure to nonperformance of another party to an agreement. We mitigate credit risk by dealing with highly rated bank counterparties. We believe that our exposures are appropriately diversified across counterparties and that these counterparties are creditworthy financial institutions. Accordingly, we do not anticipate nonperformance by our counterparties.

Given the recent turmoil in the financial and credit markets, we have expanded our interest rate hedging portfolio at what we believe to be advantageous rates that are expected to minimize our overall interest rate risk. Approximately 56% of our total debt outstanding at September 27, 2008 was at a fixed or capped LIBOR rate. During and subsequent to the third quarter of 2008, we entered into additional interest rate hedging arrangements that will become effective during the fourth quarter of 2008 and that, combined with expirations of other portions of our interest rate derivative portfolio, will result in approximately 86% of our floating rate debt bearing interest at a fixed or capped LIBOR rate. The table below summarizes our interest rate derivative



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portfolio with respect to our long-term debt that will be effective in the fourth quarter of 2008 which takes into consideration derivatives that become effective and expire subsequent to the third quarter of 2008.

	<b>Amount</b>	<b>LIBOR</b>	<b>Interest Rate Spreads</b>	<b>Hedge Expiration Dates</b>
Debt covered by interest rate caps:				
Senior Secured and Second Lien Credit Facilities	\$ 600,000	3.50%	1.50% to 3.75%	October 2009
Debt covered by interest rate swaps:				
Floating Rate Notes	500,000	4.26%	3.38%	December 2012
Senior Secured and Second Lien Credit Facilities	500,000	5.14% to 5.18%	1.50% to 3.75%	October 2009 October 2011
Senior Secured and Second Lien Credit Facilities	400,000	2.80%	1.50% to 3.75%	October 2010
Unhedged debt:				
Accounts Receivable Securitization	250,000	Not applicable	Not applicable	Not applicable
Senior Secured and Second Lien Credit Facilities	65,250	Not applicable	Not applicable	Not applicable
	\$ 2,315,250			

In May 2008, Standard & Poor's Ratings Services raised its corporate credit rating for us to BB- from B+, and also raised our bank loan and unsecured debt ratings. Standard & Poor's stated that the rating upgrade reflects our positive operating momentum as a stand-alone entity since our spin-off from Sara Lee in September 2006, and also stated that our credit protection measures and operating results have improved and are in line with Standard & Poor's expectations. Standard & Poor's also noted that management is on track in executing our strategies. Standard & Poor's current outlook for us is stable.

*Consolidation and Globalization Strategy*

We expect to continue our restructuring efforts as we continue to execute our consolidation and globalization strategy. The implementation of these efforts, which are designed to improve operating efficiencies and lower costs, has resulted and is likely to continue to result in significant costs in the short-term and generate savings as well as higher inventory levels for a period of time. As further plans are developed and approved by management and in some cases our board of directors, we expect to recognize additional restructuring to eliminate duplicative functions within the organization and transition a significant portion of our manufacturing capacity to lower-cost locations.

While capital spending could vary significantly from year to year, we anticipate that our capital spending over the next three years could be as high as \$500 million as we execute our supply chain consolidation and globalization strategy and complete the integration and consolidation of our technology systems. Capital spending in any given year over the next three years could be as high as \$100 million in excess of our annual depreciation and amortization expense until the completion of actions related to our globalization strategy at which time we would expect our annual capital spending to be relatively comparable to our annual depreciation and amortization expense. The majority of our capital spending will be focused on growing our supply chain operations in Central America, the Caribbean Basin and Asia. These locations will enable us to expand and leverage our large production scale as we balance our supply chain

across hemispheres.

As we continue to add new manufacturing capacity in Central America, the Caribbean Basin and Asia, our exposure to events that could disrupt our foreign supply chain, including political instability, acts of war or terrorism or other international events resulting in the disruption of trade, disruptions in shipping and freight forwarding services, increases in oil prices (which would increase the cost of shipping), interruptions in the availability of basic services and infrastructure and fluctuations in foreign currency exchange rates, is increased.

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Disruptions in our foreign supply chain could negatively impact our liquidity by interrupting production in facilities outside the United States, increasing our cost of sales, disrupting merchandise deliveries, delaying receipt of the products into the United States or preventing us from sourcing our products at all. Depending on timing, these events could also result in lost sales, cancellation charges or excessive markdowns.

*Rising Input Costs and Inflation*

Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by 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. While we do enter into short-term supply agreements and hedges in an attempt to protect our business from the volatility of the market price of cotton, our business can be affected by dramatic movements in cotton prices, although cotton has historically represented only 6% of our cost of sales. Cotton prices were 62 cents per pound for the nine months ended September 27, 2008 and 57 cents per pound for the nine months ended September 29, 2007. Taking into consideration the cotton costs currently included in inventory, we expect our cost of cotton to average 66 cents per pound for the full year 2008. The price of cotton currently in our inventory has risen to the mid 70 cents per pound range which is the price that will impact our operating results in the fourth quarter of 2008 and first quarter of 2009. The prices for the most recent cotton crop, which will impact our operating results in mid 2009, have decreased to the 50 cents per pound range. In addition, we continue to experience cost inflation with regards to oil related and other raw materials used in our products, such as dyes and chemicals, and increases in other costs, such as fuel, energy and utility costs.

Our ability to sell our products at competitive prices is subject to certain economic factors, some of which are beyond our control. A sustained trend of significantly increased inflationary pressure could have a material adverse effect on our business and results of operations. Inflation can have a long-term impact on us because increasing costs of materials and labor may impact our ability to maintain satisfactory margins. In this regard, a significant portion of our products are manufactured in other countries and a further decline in the value of the U.S. dollar may result in higher manufacturing costs. Similarly, the cost of the materials that are used in our manufacturing process, such as cotton, are increasing as a result of inflation and other factors. In addition, inflation often is accompanied by higher interest rates, which could have a negative impact on spending, in which case our margins could decrease. Moreover, increases in inflation may not be matched by rises in income, which also could have a negative impact on spending. If we incur increased costs that are unable to be recouped, or if consumer spending decreases generally, our business, results of operations, financial condition and cash flows may be adversely affected. In an effort to mitigate the impact of these incremental costs on our operating results, we have informed our retail customers that we are raising domestic prices effective during the first quarter of 2009. We are implementing an average gross price increase of four percent in our domestic product categories. The range of price increases varies by individual product category.

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 our customers. 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 of our control. Our customers' 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. For example, we are experiencing increased inflationary pressure on our product costs. The increase in our product costs may not be offset by comparable rises in the income of consumers of our products. These consumers may choose to purchase fewer of our products or 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 domestic price increases that will become effective during the first

quarter of 2009. If any of these events occur, or if unfavorable economic conditions continue to challenge the consumer environment, our business, results of operations, financial condition and cash flows could be adversely affected.



**Table of Contents***Pension Plans*

Our U.S. qualified pension plans are currently estimated at approximately 88% funded which should result in minimal pension funding requirements in the future. The funded status reflects a significant decrease in the fair value of plan assets due to the stock market's performance during 2008. Due to the current funded status of the plans, we are not required to make any material mandatory contributions to our pension plans in 2008.

*Consolidated Cash Flows*

The information presented below regarding the sources and uses of our cash flows for the nine months ended September 27, 2008 and September 29, 2007 was derived from our consolidated financial statements.

	<b>Nine Months Ended</b>	
	<b>September 27, 2008</b>	<b>September 29, 2007</b>
	<b>(dollars in thousands)</b>	
Operating activities	\$ (18,621)	\$ 235,843
Investing activities	(109,644)	(50,320)
Financing activities	40,776	(167,739)
Effect of changes in foreign currency exchange rates on cash	(535)	2,620
Increase (decrease) in cash and cash equivalents	\$ (88,024)	\$ 20,404
Cash and cash equivalents at beginning of year	174,236	155,973
Cash and cash equivalents at end of period	\$ 86,212	\$ 176,377

*Operating Activities*

Net cash used in operating activities was \$19 million in the nine months of 2008 compared to cash provided by operating activities of \$236 million in 2007. The net change in cash from operating activities of \$255 million for the nine months of 2008 compared to 2007 is attributable to the higher uses of our working capital which was primarily driven by changes in inventory. Inventory grew \$243 million from December 2007 primarily due to increases in levels needed to service our business over the next eighteen months as we execute our consolidation and globalization strategy which had an impact of approximately \$185 million. In addition, cost increases for inputs such as cotton, oil and freight were approximately \$52 million and the currency impact was approximately \$6 million. We continually monitor our inventory levels to best balance current supply and demand with potential future demand that typically surges when consumers no longer postpone purchases in our product categories.

*Investing Activities*

Net cash used in investing activities was \$110 million in the nine months of 2008 compared to \$50 million in 2007. The higher net cash used in investing activities of \$60 million for the nine months of 2008 compared to 2007 was primarily the result of higher capital expenditures. During the nine month period in 2008 capital expenditures were \$123 million as we continue to build out our textile and sewing network in Central America, the Caribbean Basin and Asia and invest in our technology strategic initiatives. Also, we received cash proceeds from sales of assets of \$24 million, primarily from dispositions of plant and equipment associated with our restructuring initiatives. In

addition, we acquired a sewing operation in Thailand for \$10 million during 2008.

*Financing Activities*

Net cash provided by financing activities was \$41 million in the nine months of 2008 compared to cash used in financing activities of \$168 million in 2007. The higher net cash provided by financing activities of \$209 million for the nine months of 2008 compared to 2007 was primarily the result of higher net borrowings on notes payable of \$49 million, repayments of \$128 million of principal under our senior secured credit facility in 2007, the receipt from Sara Lee of \$18 million in cash in 2008 and lower stock repurchases of \$14 million.

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### ***Cash and Cash Equivalents***

As of September 27, 2008 and December 29, 2007, cash and cash equivalents were \$86 million and \$174 million, respectively. The lower cash and cash equivalents as of September 27, 2008 was primarily the result of net capital expenditures of \$99 million, \$30 million of stock repurchases, the acquisition of a sewing operation in Thailand for \$10 million and \$19 million related to other uses of working capital partially offset by \$52 million of net borrowings on notes payable and the receipt from Sara Lee of \$18 million in cash.

### **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 position 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 Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 29, 2007.

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 consolidated 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 December 29, 2007. There have been no material changes during the nine months ended September 27, 2008 in these policies.

### **Recently Issued 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 our 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 us is now required on January 4, 2009. The partial adoption of SFAS 157 in the first quarter ended March 29, 2008 had no material impact on our financial condition, results of operations or cash flows, but resulted in certain additional disclosures reflected in Note 9 of the Condensed Consolidated Financial Statements. We are in the process of evaluating the impact of SFAS 157 as it relates to our non-financial assets and liabilities.

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. We utilize 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 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.



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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.

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

As of September 27, 2008, we held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis. These consisted of our derivative instruments related to interest rates, foreign exchange rates and cotton. 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. We do 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 third quarter and nine months ended September 27, 2008. There were no changes during the third quarter and nine months ended September 27, 2008 to our valuation techniques used to measure asset and liability fair values on a recurring basis.

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. Our 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. The determination of fair values 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 our nonperformance risk on our liabilities.

### ***Business Combinations***

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a company provides in its financial reports about a business combination and its effects. Under SFAS 141R, a company would be required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at their fair value at the acquisition date. It further requires that research and development assets acquired in a business combination that have no alternative future use be measured at their acquisition-date fair value and then immediately charged to expense, and that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. Among other changes, this statement would also require that negative goodwill be recognized in earnings as a gain attributable to the acquisition, and any deferred tax benefits resulting from a business combination be recognized in income from continuing operations in the period of the combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

### ***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 this Statement is to

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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 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. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We do not believe that the adoption of SFAS 160 will have a material impact on our results of operations or financial position.

***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 to include more detailed qualitative disclosures and expanded quantitative disclosures. The provisions of SFAS 161 are effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS 161 will not have a material impact on our results of operations.

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

We are required under our senior secured credit facility and our second lien credit facility to hedge a portion of our floating rate debt to reduce interest rate risk caused by floating rate debt issuance. At September 27, 2008, we have outstanding hedging arrangements whereby we capped the interest rate on \$700 million of our floating rate debt at 5.75%. We also entered into interest rate swaps tied to the 3-month and 6-month LIBOR rates whereby we fixed the interest rate on an aggregate of \$600 million of our floating rate debt. Approximately 56% of our total debt outstanding at September 27, 2008 is at a fixed or capped rate. Due to the recent significant changes in the credit markets, the fair values of our interest rate hedging instruments have decreased approximately \$6.7 million and \$7.2 million during the third quarter and nine months ended September 27, 2008, respectively. This activity has been deferred into Accumulated Other Comprehensive Loss in our Condensed Consolidated Balance Sheet until the hedged transactions impact our earnings.

Subsequent to September 27, 2008, we entered into interest rate swap agreements with a notional amount totaling \$400 million, as a result of which we have fixed LIBOR on a portion of our outstanding debt at 2.80% for a 2-year term. These agreements will become effective during the fourth quarter of 2008 and, when combined with expirations of other portions of our interest rate derivative portfolio, will result in approximately 86% of our floating rate debt bearing interest at a fixed or capped rate. Once these interest rate hedging arrangements become effective in the fourth quarter of 2008, the LIBOR interest rate component on \$600 million of our floating rate debt will be capped at 3.50% and the LIBOR interest rate component on \$1.4 billion of our floating rate debt will be fixed at a weighted average rate of 4.17%.

Cotton is the primary raw material we use to manufacture many of our products. While we attempt to protect our business from the volatility of the market price of cotton through short-term supply agreements and hedges, our business can be adversely affected by dramatic movements in cotton prices. The price of cotton currently in our inventory has risen to the mid 70 cents per pound range which is the price that will impact our operating results in the fourth quarter of 2008 and first quarter of 2009. The prices for the most recent cotton crop, which will impact our operating results in mid 2009, have decreased to the 50 cents per pound range. The ultimate effect of these pricing levels on our earnings cannot be quantified, as the effect of movements in cotton prices on industry selling prices are

uncertain, but any dramatic increase in the price of cotton could have a material adverse effect on our business, results of operations, financial condition and cash flows.



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There have been no other 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 December 29, 2007.

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

As required by Exchange Act Rule 13a-15(b), our management, including the 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, the 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 the 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.

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

Not applicable.

**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 or financial condition.

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

***Current economic conditions may adversely impact demand for our products, reduce access to credit and cause our customers and others with which we do business to suffer financial hardship, all of which could adversely impact our business, results of operations, financial condition and cash flows.***

Worldwide economic conditions have recently deteriorated significantly in many countries and regions, including the United States, and may remain depressed for the foreseeable future. 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 our customers. 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 of our control. Our customers' 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. For example, we are experiencing increased inflationary pressure on our product costs. The increase in our product costs may not be offset by comparable rises in the income of consumers of our products. These consumers may choose to purchase fewer of our products or 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 domestic price increases that become effective from time to time. If any of these events occur, or if unfavorable economic conditions continue to challenge the consumer environment, our business, results of operations, financial condition and cash flows could be adversely affected.



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In addition, economic conditions, including decreased access to credit, may result in financial difficulties leading to restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers of raw materials and finished goods, logistics and other service providers and financial institutions which are counterparties to our credit facilities and derivatives transactions. In addition, the ability of these third parties to overcome these difficulties may increase. For example, one of our customers, Mervyn's, a regional retailer in California and the Southwest that originally filed for reorganization under Chapter 11 in July 2008, announced on October 17, 2008 its intention to wind down its business and conduct going-out-of-business sales at 149 remaining store locations under Chapter 11 of the U.S. Bankruptcy Code. The impact of this disclosure by Mervyn's led us to take a \$5.5 million charge in the third quarter. If third parties on which we rely for raw materials, finished goods or services are unable to overcome difficulties resulting from the deterioration in worldwide economic conditions and provide us with the materials and services we need, or if counterparties to our credit facilities or derivatives transactions do not perform their obligations, our business, results of operations, financial condition and cash flows could be adversely affected.

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

The following table provides information about purchases by Hanesbrands during the third quarter ended September 27, 2008 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)</b>
06/29/08 08/02/08	269,350	\$ 27.55	269,350	7,692,176
08/03/08 08/30/08	529,300	22.63	529,300	7,162,876
08/31/08 09/27/08				7,162,876
<b>Total</b>	<b>798,650</b>	<b>\$ 24.29</b>	<b>798,650</b>	<b>7,162,876</b>

(1) These repurchases were made pursuant to the repurchase program that was approved by our board of directors in January 2007 and announced in February 2007, which authorizes us to purchase up to 10 million shares of our common stock from time to time.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. *Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of stockholders during the third quarter ended September 27, 2008.

**Item 5. *Other Information***

None.

**Item 6. *Exhibits***

The exhibits listed in the accompanying Exhibit Index on page E-1 are filed or furnished as part of this Quarterly Report on Form 10-Q.

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**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/ E. Lee Wyatt Jr.

E. Lee Wyatt Jr.  
Executive Vice President,  
Chief Financial Officer

Date: October 31, 2008

**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 September 27, 2007).
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	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).
3.13	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).

Commission on April 26, 2007).

- 3.14 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).

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<b>Exhibit Number</b>	<b>Description</b>
3.15	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).
3.16	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).
3.17	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).
3.18	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).
3.19	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).
3.20	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).
3.21	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).
3.22	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).
3.23	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).
3.24	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).
3.25	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).
3.26	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).
3.27	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).
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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).

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<b>Exhibit Number</b>	<b>Description</b>
3.29	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).
3.30	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).
3.31	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).
3.32	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).
3.33	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).
3.34	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).
3.35	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).
3.36	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).
3.37	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).
3.38	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).
3.39	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).
3.40	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).
3.41	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).

- 3.42 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).

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<b>Exhibit Number</b>	<b>Description</b>
3.43	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).
4.1	Indenture, dated as of August 1, 2008, among the Registrant, certain subsidiaries of the Registrant, and Branch Banking and Trust Company, as Trustee (incorporated by reference from Exhibit 4.3 to the Registrant's Registration Statement on Form S-3 (Commission file number 333-152733) filed with the Securities and Exchange Commission on August 1, 2008).
10.1	Second Amendment dated August 21, 2008 to the First Lien Credit Agreement dated as of September 5, 2006 among Hanesbrands Inc., the various financial institutions and other persons from time to time party thereto, HSBC Bank USA, National Association and LaSalle Bank National Association and Barclays Bank PLC, as the co-documentation agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley Senior Funding, Inc., as the co-syndication agents, Citicorp USA, Inc., as the administrative agent, Citibank, N.A., as the collateral agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley Senior Funding, Inc., as the joint lead arrangers and joint bookrunners. (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2008).
10.2	First Amendment dated August 21, 2008 to the Second Lien Credit Agreement dated as of September 5, 2006 among HBI Branded Apparel Limited, Inc., Hanesbrands Inc., the various financial institutions and other persons from time to time party thereto, HSBC Bank USA, National Association and LaSalle Bank National Association and Barclays Bank PLC, as the co-documentation agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley Senior Funding, Inc., as the co-syndication agents, Citicorp USA, Inc., as the administrative agent, Citibank, N.A., as the collateral agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley Senior Funding, Inc., as the joint lead arrangers and joint bookrunners. (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2008).
10.3	Hanesbrands Inc. Executive Deferred Compensation Plan, as amended.
10.4	Hanesbrands Inc. Retirement Savings Plan, as amended.
10.5	Hanesbrands Inc. Supplement Employee Retirement Savings Plan, as amended.
31.1	Certification of Richard A. Noll, Chief Executive Officer.
31.2	Certification of E. Lee Wyatt Jr., Chief Financial Officer.
32.1	Section 1350 Certification of Richard A. Noll, Chief Executive Officer.
32.2	Section 1350 Certification of E. Lee Wyatt Jr., Chief Financial Officer.