

Hanesbrands Inc.  
Form 10-Q  
October 24, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 29, 2012

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)

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**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) 519-8080**

(Registrant's telephone number including area code)

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of October 19, 2012, there were 97,859,546 shares of the registrant's common stock outstanding.

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

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**FORWARD-LOOKING STATEMENTS**

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

Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the year ended December 31, 2011, particularly under the caption Risk Factors, as well in the investors section of the company's corporate website, <http://tiny.cc/HanesBrandsIR>.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 31, 2011, particularly under the caption Risk Factors. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

**WHERE YOU CAN FIND MORE INFORMATION**

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

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

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

|   | Quarter Ended         |                    | Nine Months Ended     |                    |
|---|-----------------------|--------------------|-----------------------|--------------------|
|   | September 29,<br>2012 | October 1,<br>2011 | September 29,<br>2012 | October 1,<br>2011 |
| Net sales   | \$ 1,218,681          | \$ 1,185,304       | \$ 3,372,465          | \$ 3,333,340       |
| Cost of sales   | 818,751               | 771,251            | 2,350,489             | 2,168,305          |
| Gross profit  | 399,930               | 414,053            | 1,021,976             | 1,165,035          |
| Selling, general and administrative expenses                | 243,422               | 269,109            | 734,872               | 792,177            |
| Operating profit  | 156,508               | 144,944            | 287,104               | 372,858            |
| Other expenses  | 3,373                 | 880                | 4,829                 | 2,295              |
| Interest expense, net                                       | 32,897                | 38,255             | 106,503               | 118,483            |
| Income from continuing operations before income tax expense | 120,238               | 105,809            | 175,772               | 252,080            |
| Income tax expense  | 9,055                 | 20,739             | 21,544                | 48,283             |
| Income from continuing operations                           | 111,183               | 85,070             | 154,228               | 203,797            |
| Income (loss) from discontinued operations, net of tax      | (1,291)               | 5,762              | (69,935)              | 21,926             |
| Net income  | \$ 109,892            | \$ 90,832          | \$ 84,293             | \$ 225,723         |
| Earnings (loss) per share basic:                            |                       |                    |                       |                    |
| Continuing operations                                       | \$ 1.13               | \$ 0.87            | \$ 1.56               | \$ 2.09            |
| Discontinued operations                                     | (0.01)                | 0.06               | (0.71)                | 0.22               |
| Net income  | \$ 1.11               | \$ 0.93            | \$ 0.85               | \$ 2.31            |
| Earnings (loss) per share diluted:                          |                       |                    |                       |                    |
| Continuing operations                                       | \$ 1.11               | \$ 0.85            | \$ 1.54               | \$ 2.05            |
| Discontinued operations                                     | (0.01)                | 0.06               | (0.70)                | 0.22               |
| Net income  | \$ 1.09               | \$ 0.91            | \$ 0.84               | \$ 2.28            |
| Weighted average shares outstanding:                        |                       |                    |                       |                    |
| Basic   | 98,707                | 97,925             | 98,611                | 97,559             |
| Diluted   | 100,472               | 99,535             | 100,131               | 99,200             |

See accompanying notes to Condensed Consolidated Financial Statements.



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**HANESBRANDS INC.**

**Condensed Consolidated Statements of Comprehensive Income**

**(in thousands)**

**(unaudited)**

|  | <b>Quarter Ended</b>          |                            | <b>Nine Months Ended</b>      |                            |
|--|-------------------------------|----------------------------|-------------------------------|----------------------------|
|  | <b>September 29,<br/>2012</b> | <b>October 1,<br/>2011</b> | <b>September 29,<br/>2012</b> | <b>October 1,<br/>2011</b> |
| Net income   | \$ 109,892                    | \$ 90,832                  | \$ 84,293                     | \$ 225,723                 |
| Other comprehensive income (loss), net of tax of \$1,581, \$3,356, \$4,357 and \$6,888, respectively | 4,881                         | (9,193)                    | 8,196                         | 2,904                      |
| <b>Comprehensive income</b>  | <b>\$ 114,773</b>             | <b>\$ 81,639</b>           | <b>\$ 92,489</b>              | <b>\$ 228,627</b>          |

See accompanying notes to Condensed Consolidated Financial Statements.

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

|   | <b>September 29,<br/>2012</b>           | <b>December 31,<br/>2011</b> |
|---|---|------------------------------|
| <b>Assets</b>   |   |                              |
| Cash and cash equivalents                                       | \$ 182,269                              | \$ 35,345                    |
| Trade accounts receivable, net                                  | 585,490                                 | 470,713                      |
| Inventories   | 1,340,776                               | 1,607,555                    |
| Deferred tax assets   | 156,932                                 | 154,667                      |
| Other current assets  | 53,387                                  | 62,511                       |
| <b>Total current assets</b>                                     | <b>2,318,854</b>                        | <b>2,330,791</b>             |
| Property, net   | 606,011                                 | 635,406                      |
| Trademarks and other identifiable intangibles, net              | 123,071                                 | 169,675                      |
| Goodwill  | 433,321                                 | 433,396                      |
| Deferred tax assets   | 396,667                                 | 394,220                      |
| Other noncurrent assets   | 61,635                                  | 71,181                       |
| <b>Total assets</b>   | <b>\$ 3,939,559</b>                     | <b>\$ 4,034,669</b>          |
| <b>Liabilities and Stockholders Equity</b>                      |   |                              |
| Accounts payable  | \$ 429,166                              | \$ 451,525                   |
| Accrued liabilities   | 259,772                                 | 252,186                      |
| Notes payable   | 50,778                                  | 63,075                       |
| Accounts Receivable Securitization Facility                     | 193,975                                 | 166,933                      |
| Current portion of long-term debt                               | 145,185                                 |                              |
| <b>Total current liabilities</b>                                | <b>1,078,876</b>                        | <b>933,719</b>               |
| Long-term debt  | 1,500,000                               | 1,807,777                    |
| Pension and postretirement benefits                             | 471,335                                 | 485,688                      |
| Other noncurrent liabilities                                    | 112,281                                 | 126,424                      |
| <b>Total liabilities</b>  | <b>3,162,492</b>                        | <b>3,353,608</b>             |
| <b>Stockholders equity:</b>                                     |   |                              |
| Preferred stock (50,000,000 authorized shares; \$.01 par value) |   |                              |
| Issued and outstanding  | None                                    |                              |
| Common stock (500,000,000 authorized shares; \$.01 par value)   |   |                              |
| Issued and outstanding  | 97,856,406 and 97,517,325, respectively | 979      975                 |
| Additional paid-in capital                                      | 277,260                                 | 266,551                      |
| Retained earnings   | 831,079                                 | 746,786                      |
| Accumulated other comprehensive loss                            | (332,251)                               | (333,251)                    |
| <b>Total stockholders equity</b>                                | <b>777,067</b>                          | <b>681,061</b>               |



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|  |              |              |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 3,939,559 | \$ 4,034,669 |
|--|--------------|--------------|

See accompanying notes to Condensed Consolidated Financial Statements.

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

|  | <b>Nine Months Ended</b>      |                            |
|--|-------------------------------|----------------------------|
|  | <b>September 29,<br/>2012</b> | <b>October 1,<br/>2011</b> |
| <b>Operating activities:</b>   |                               |                            |
| Net income   | \$ 84,293                     | \$ 225,723                 |
| <b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b> |                               |                            |
| Depreciation and amortization of long-lived assets   | 70,096                        | 66,568                     |
| Impairment of intangibles  | 37,425                        |                            |
| Loss on disposition of business  | 31,811                        |                            |
| Amortization of debt issuance costs  | 7,077                         | 7,799                      |
| Amortization of loss on interest rate hedge  | 3,164                         | 8,928                      |
| Stock compensation expense   | 6,722                         | 5,901                      |
| Deferred taxes and other   | (12,020)                      | 2,970                      |
| <b>Changes in assets and liabilities, net of acquisition and disposition of businesses:</b>        |                               |                            |
| Accounts receivable  | (122,929)                     | (90,942)                   |
| Inventories  | 230,427                       | (404,801)                  |
| Other assets   | 12,702                        | 2,305                      |
| Accounts payable   | (18,503)                      | 93,526                     |
| Accrued liabilities and other  | (20,860)                      | 55,149                     |
| <b>Net cash provided by (used in) operating activities</b>   | <b>309,405</b>                | <b>(26,874)</b>            |
| <b>Investing activities:</b>   |                               |                            |
| Capital expenditures   | (29,162)                      | (56,085)                   |
| Acquisition of business  |                               | (9,154)                    |
| Disposition of business  | 12,708                        |                            |
| <b>Net cash used in investing activities</b>   | <b>(16,454)</b>               | <b>(65,239)</b>            |
| <b>Financing activities:</b>   |                               |                            |
| Borrowings on notes payable  | 43,251                        | 305,257                    |
| Repayments on notes payable  | (55,645)                      | (322,185)                  |
| Borrowings on Accounts Receivable Securitization Facility  | 156,817                       | 229,396                    |
| Repayments on Accounts Receivable Securitization Facility  | (129,775)                     | (144,396)                  |
| Borrowings on Revolving Loan Facility  | 2,177,000                     | 2,448,500                  |
| Repayments on Revolving Loan Facility  | (2,191,500)                   | (2,433,500)                |
| Redemption of Floating Rate Senior Notes   | (148,092)                     |                            |
| Proceeds from stock options exercised  | 4,103                         | 16,784                     |
| Other  | (2,348)                       | (2,364)                    |
| <b>Net cash provided by (used in) financing activities</b>   | <b>(146,189)</b>              | <b>97,492</b>              |
| Effect of changes in foreign exchange rates on cash  | 162                           | (1,053)                    |
| <b>Increase in cash and cash equivalents</b>   | <b>146,924</b>                | <b>4,326</b>               |
| Cash and cash equivalents at beginning of year   | 35,345                        | 43,671                     |

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|  |            |           |
|--|------------|-----------|
| Cash and cash equivalents at end of period | \$ 182,269 | \$ 47,997 |
|--|------------|-----------|

See accompanying notes to Condensed Consolidated Financial Statements.

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**HANESBRANDS INC.**

**Notes to Condensed Consolidated Financial Statements**

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

**(unaudited)**

**(1) Basis of Presentation**

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

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

In May 2012, the Company sold its European imagewear business, and the Company is completing the discontinuation of its private-label and Outer Banks domestic imagewear operations which served wholesalers that sell to the screen-print industry. As a result of these actions, the current year and prior-year disclosures reflect these operations as discontinued operations.

**(2) Recent Accounting Pronouncements**

***Fair Value Measurements***

In May 2011, the Financial Accounting Standards Board (the "FASB") issued new accounting rules related to fair value measurements. The new accounting rules clarify some existing concepts, eliminate wording differences between GAAP and International Financial Reporting Standards ("IFRS"), and in some limited cases, change some principles to achieve convergence between GAAP and IFRS. The new accounting rules result in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. The new accounting rules also expand the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The adoption of the new accounting rules in the first quarter of 2012 did not have a material effect on our financial condition, results of operations or cash flows.

***Presentation of Comprehensive Income***

In June 2011, the FASB issued new accounting rules that require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. The new accounting rules eliminate the option to present components of other comprehensive income as part of the statement of equity. The adoption of the new accounting rules in the first quarter of 2012 did not have a material effect on our financial condition, results of operations or cash flows.

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**HANESBRANDS INC.**

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

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

**(unaudited)**

In December 2011, the FASB issued new accounting rules which deferred certain provisions of the rules issued in June 2011 that required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. Accordingly, this requirement is indefinitely deferred.

***Goodwill Impairment Testing***

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

***Disclosures About Offsetting Assets and Liabilities***

In December 2011, the FASB issued new accounting rules related to new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new rules are effective for the Company in the first quarter of 2015 with retrospective application required. The Company does not expect the adoption of the new accounting rules to have a material effect on our financial condition, results of operations or cash flows.

**(3) Discontinued Operations**

***European Imagewear***

In May 2012, the Company sold its European imagewear business to Smartwares, B.V. for 15,000 (approximately \$13,000, net of fees and other transaction related costs) in cash proceeds, resulting in a pre-tax loss of approximately \$32,000. The European imagewear business was previously reported within the International segment.

***Domestic Imagewear***

The Company is completing the discontinuation of its private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry. During the second quarter of 2012, the Company incurred pre-tax charges of approximately \$58,000, substantially all noncash, for the write-down of intangibles, inventory markdowns and other related items. The private-label and Outer Banks domestic imagewear operations were previously reported within the Outerwear segment.

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

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

(unaudited)

The operating results of these discontinued operations only reflect revenues and expenses that are directly attributable to these businesses and that will be eliminated from ongoing operations. The key components from discontinued operations related to the European and domestic imagewear businesses were as follows:

|   | Quarter Ended         |                    | Nine Months Ended     |                    |
|---|-----------------------|--------------------|-----------------------|--------------------|
|   | September 29,<br>2012 | October 1,<br>2011 | September 29,<br>2012 | October 1,<br>2011 |
| Net sales   | \$ 14,915             | \$ 44,881          | \$ 88,769             | \$ 158,488         |
| Cost of sales   | 16,512                | 33,491             | 116,174               | 116,315            |
| Gross profit (loss)   | (1,597)               | 11,390             | (27,405)              | 42,173             |
| Selling, general and administrative expenses                                      | 293                   | 3,651              | 7,005                 | 12,037             |
| Impairment of intangibles   | (172)                 |                    | 37,425                |                    |
| Operating profit (loss)   | (1,718)               | 7,739              | (71,835)              | 30,136             |
| Interest expense, net   |                       | 7                  | 4                     | 62                 |
| Loss on disposal of business  | 195                   |                    | 31,811                |                    |
| Income (loss) from discontinued operations before<br>income tax expense (benefit) | (1,913)               | 7,732              | (103,650)             | 30,074             |
| Income tax expense (benefit)  | (622)                 | 1,970              | (33,715)              | 8,148              |
| Net income (loss) from discontinued operations, net of<br>tax                     | \$ (1,291)            | \$ 5,762           | \$ (69,935)           | \$ 21,926          |

**(4) Earnings Per Share**

Basic earnings per share (EPS) was computed by dividing net income by the number of weighted average shares of common stock outstanding during the quarters and nine months ended September 29, 2012 and October 1, 2011. Diluted EPS was calculated to give effect to all potentially dilutive shares of common stock using the treasury stock method. The reconciliation of basic to diluted weighted average shares outstanding for the quarters and nine months ended September 29, 2012 and October 1, 2011 is as follows:

|  | Quarter Ended         |                    | Nine Months Ended     |                    |
|--|-----------------------|--------------------|-----------------------|--------------------|
|  | September 29,<br>2012 | October 1,<br>2011 | September 29,<br>2012 | October 1,<br>2011 |
| Basic weighted average shares outstanding  | 98,707                | 97,925             | 98,611                | 97,559             |
| Effect of potentially dilutive securities: |                       |                    |                       |                    |
| Stock options                              | 1,366                 | 1,230              | 1,192                 | 1,221              |
| Restricted stock units                     | 398                   | 377                | 327                   | 418                |
| Employee stock purchase plan and other     | 1                     | 3                  | 1                     | 2                  |

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|   |         |        |         |        |
|---|---------|--------|---------|--------|
| Diluted weighted average shares outstanding | 100,472 | 99,535 | 100,131 | 99,200 |
|---|---------|--------|---------|--------|

For the quarters ended September 29, 2012 and October 1, 2011, 0 and 13 restricted stock units, respectively, were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive. For the nine months ended September 29, 2012 and October 1, 2011, options to purchase 1 and 6 shares of common stock and 11 and 13 restricted stock units, respectively, were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive.

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

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

(unaudited)

**(5) Inventories**

Inventories consisted of the following:

|                 | September 29,<br>2012 | December 31,<br>2011 |
|-----------------|-----------------------|----------------------|
| Raw materials   | \$ 177,693            | \$ 231,781           |
| Work in process | 136,399               | 129,827              |
| Finished goods  | 1,026,684             | 1,245,947            |
|                 | \$ 1,340,776          | \$ 1,607,555         |

**(6) Debt**

The Company had the following debt at September 29, 2012 and December 31, 2011:

|   | Interest<br>Rate as of<br>September 29,<br>2012 | Principal Amount<br>September 29,<br>2012 | December 31,<br>2011 | Maturity Date |
|---|---|---|----------------------|---------------|
| Revolving Loan Facility                     |   | \$  | 14,500               | July 2017     |
| 6.375% Senior Notes                         | 6.38%   | 1,000,000                                 | 1,000,000            | December 2020 |
| 8% Senior Notes                             | 8.00%   | 500,000                                   | 500,000              | December 2016 |
| Floating Rate Senior Notes                  | 4.11%   | 145,185                                   | 293,277              | December 2014 |
| Accounts Receivable Securitization Facility | 1.30%   | 193,975                                   | 166,933              | March 2013    |
|   |   | 1,839,160                                 | 1,974,710            |               |
| Less current maturities                     |   | 339,160                                   | 166,933              |               |
|   |   | \$ 1,500,000                              | \$ 1,807,777         |               |

As of September 29, 2012, the Company had \$0 outstanding under the \$600,000 revolving credit facility (the Revolving Loan Facility) under the senior secured credit facility that it entered into in 2006 and amended and restated in December 2009 (as amended and restated, the 2009 Senior Secured Credit Facility), \$10,876 of standby and trade letters of credit issued and outstanding under this facility and \$589,124 of borrowing availability.

In July 2012, the Company amended the Revolving Loan Facility to reduce the interest rate by 100 basis points and extend the maturity date to (i) July 2017 or (ii) September 2016, if the Company's 8% Senior Notes have not been refinanced or repaid or the maturity date thereof has not otherwise been extended beyond July 2017 by September 2016.



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In July 2012, the Company redeemed \$148,092 of the Floating Rate Senior Notes at 100% of the principal amount thereof. In October 2012, the Company redeemed the remaining \$145,185 of the Floating Rate Senior Notes at 100% of the principal amount thereof.

In March 2012, the Company amended the accounts receivable securitization facility that it entered into in November 2007 (the Accounts Receivable Securitization Facility ). This amendment decreased certain usage fee rates and extended the termination date to March 2013.

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**HANESBRANDS INC.**

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

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

**(unaudited)**

As of September 29, 2012, the Company was in compliance with all financial covenants under its credit facilities.

**(7) Financial Instruments and Risk Management**

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

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

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

***Cash Flow Hedges***

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

***Cash Flow Hedges - Interest Rate Derivatives***

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

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**HANESBRANDS INC.**

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

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

**(unaudited)**

*Cash Flow Hedges Foreign Currency Derivatives*

The Company uses forward exchange and option contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated transactions, foreign currency-denominated investments and other known foreign currency exposures. Gains and losses on these contracts are intended to offset losses and gains on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. The effective portion of foreign exchange hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying inventory is sold, using historical inventory turnover rates. The settlement of foreign exchange hedge derivative contracts related to the purchase of inventory or other hedged items are reported in the Condensed Consolidated Statements of Cash Flows as cash flow from operating activities.

Historically, the principal currencies hedged by the Company include the Mexican peso, Canadian dollar, Japanese yen and Euro. Forward exchange contracts mature on the anticipated cash requirement date of the hedged transaction, generally within one year. As of September 29, 2012, the notional U.S. dollar equivalent of commitments to sell foreign currencies in the Company's foreign currency cash flow hedge derivative portfolio was \$37,832.

*Cash Flow Hedges Commodity Derivatives*

Cotton is the primary raw material used to manufacture many of the Company's products and is purchased at market prices. The Company is able to lock in the cost of cotton reflected in the price it pays for yarn from its primary yarn suppliers in an attempt to protect its business from the volatility of the market price of cotton. In addition, from time to time, the Company uses commodity financial instruments to hedge the price of cotton, for which there is a high correlation between the hedged item and the hedge instrument. Gains and losses on these contracts are intended to offset losses and gains on the hedged transactions in an effort to reduce the earnings volatility resulting from fluctuating commodity prices. The effective portion of commodity hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying inventory is sold, using historical inventory turnover rates. The settlement of commodity derivative contracts related to the purchase of inventory is reported in the Condensed Consolidated Statements of Cash Flows as cash flow from operating activities. There were no amounts outstanding under cotton futures or cotton option contracts at September 29, 2012 and December 31, 2011.

*Mark to Market Hedges*

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

*Mark to Market Hedges Intercompany Foreign Exchange Transactions*

The Company uses foreign exchange derivative contracts to reduce the impact of foreign exchange fluctuations on anticipated intercompany purchase and lending transactions denominated in foreign currencies. Foreign exchange derivative contracts are recorded as mark to market hedges when the hedged item is a recorded asset or liability that is revalued in each accounting period. Mark to market hedge derivatives relating to intercompany foreign exchange contracts are reported in the Condensed Consolidated Statements of Cash Flows as cash flow from operating activities. As of September 29, 2012, the notional U.S. dollar equivalent of commitments to purchase and sell foreign currencies in the Company's foreign currency mark to market hedge derivative portfolio was \$2,450 and \$46,828, respectively.

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

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

(unaudited)

*Fair Values of Derivative Instruments*

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

|  | Balance Sheet Location | Fair Value            |                      |
|--|------------------------|-----------------------|----------------------|
|  |                        | September 29,<br>2012 | December 31,<br>2011 |
| <b>Derivative assets hedges</b>            |                        |                       |                      |
| Foreign exchange contracts                 | Other current assets   | \$ 11                 | \$ 3,205             |
| <b>Total derivative assets hedges</b>      |                        | 11                    | 3,205                |
| <b>Derivative assets non-hedges</b>        |                        |                       |                      |
| Foreign exchange contracts                 | Other current assets   | 96                    | 455                  |
| <b>Total derivative assets</b>             |                        | \$ 107                | \$ 3,660             |
| <b>Derivative liabilities hedges</b>       |                        |                       |                      |
| Foreign exchange contracts                 | Accrued liabilities    | \$ (609)              | \$ (205)             |
| <b>Total derivative liabilities hedges</b> |                        | (609)                 | (205)                |
| <b>Derivative liabilities non-hedges</b>   |                        |                       |                      |
| Foreign exchange contracts                 | Accrued liabilities    | (319)                 | (388)                |
| <b>Total derivative liabilities</b>        |                        | \$ (928)              | \$ (593)             |
| <b>Net derivative asset (liability)</b>    |                        | \$ (821)              | \$ 3,067             |

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

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

(unaudited)

**Net Derivative Gain or Loss**

The effect of cash flow hedge derivative instruments on the Condensed Consolidated Statements of Income and Accumulated Other Comprehensive Loss is as follows:

|                            | Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss (Effective Portion) Quarter Ended |                 | Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) Quarter Ended |                 |
|----------------------------|--|-----------------|--|--|-----------------|
|                            | September 29, 2012   | October 1, 2011 |  | September 29, 2012   | October 1, 2011 |
| Interest rate contracts    | \$   | \$              | Interest expense, net  | \$ (1,004)   | \$ (2,550)      |
| Foreign exchange contracts | (985)  | 2,561           | Cost of sales  | 41   | 314             |
| Foreign exchange contracts |  | 925             | Income (loss) from discontinued operations, net of tax   |  | (410)           |
| <b>Total</b>               | \$ (985)   | \$ 3,486        |  | \$ (963)   | \$ (2,646)      |

|                            | Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss (Effective Portion) Nine Months Ended |                 | Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion) Nine Months Ended |                 |
|----------------------------|--|-----------------|--|--|-----------------|
|                            | September 29, 2012   | October 1, 2011 |  | September 29, 2012   | October 1, 2011 |
| Interest rate contracts    | \$   | \$ (3)          | Interest expense, net  | \$ (3,164)   | \$ (9,187)      |
| Foreign exchange contracts | (1,250)  | 512             | Cost of sales  | (1)  | (707)           |
| Foreign exchange contracts | 83   | (289)           | Income (loss) from discontinued operations, net of tax   | 3,039  | (306)           |
| <b>Total</b>               | \$ (1,167)   | \$ 220          |  | \$ (126)   | \$ (10,200)     |

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The Company expects to reclassify into earnings during the next 12 months a net gain from Accumulated Other Comprehensive Loss of approximately \$236.

The changes in fair value of derivatives excluded from the Company's effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in Selling, general and administrative expenses and Income (loss) from discontinued operations, net of tax in the Condensed Consolidated Statements of Income. The Company recognized a loss related to ineffectiveness of hedging relationships for the quarter ended September 29, 2012 for foreign exchange contracts of \$420 and a gain related to ineffectiveness of hedging relationships for the nine months of 2012 for foreign exchange contracts of \$179. The Company recognized gains related to ineffectiveness of hedging relationships for the quarter and nine months ended October 1, 2011 for foreign exchange contracts of \$254 and \$191, respectively.

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

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

(unaudited)

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

|                            | Location of Loss<br>Recognized in Income on<br>Derivative | Amount of Gain (Loss)<br>Recognized in Income |                    | Amount of Gain (Loss)<br>Recognized in Income |                    |
|----------------------------|---|---|--------------------|---|--------------------|
|                            |   | Quarter Ended                                 |                    | Nine Months Ended                             |                    |
|                            |   | September 29,<br>2012                         | October 1,<br>2011 | September 29,<br>2012                         | October 1,<br>2011 |
| Foreign exchange contracts | Selling, general and<br>administrative expenses           | \$ (1,891)                                    | \$ 756             | \$ (3,952)                                    | \$ (2,330)         |
| <b>Total</b>               |   | \$ (1,891)                                    | \$ 756             | \$ (3,952)                                    | \$ (2,330)         |

**(8) Fair Value of Assets and Liabilities**

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

As of September 29, 2012, the Company held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis. These consisted of the Company's derivative instruments related to interest rates and foreign exchange rates. The Company's defined benefit pension plan investments are not required to be measured at fair value on a recurring basis. The fair values of interest rate derivatives are determined with pricing models using LIBOR interest rate curves, spreads, volatilities and other relevant information developed using market data and are categorized as Level 2. The fair values of foreign currency derivatives are determined using the cash flows of the foreign exchange contract, discount rates to account for the passage of time and current foreign exchange market data and are categorized as Level 2.

There were no changes during the quarter ended September 29, 2012 to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis. There were no transfers between the three level categories and there were no Level 3 assets or liabilities measured on a quarterly basis during the quarter ended September 29, 2012. As of and during the quarter and nine months ended September 29, 2012, the Company did not have any non-financial assets or liabilities that were required to be measured at fair value on a recurring or non-recurring basis.

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

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities accounted for at fair value on a recurring basis.

|                                       | <b>Assets (Liabilities) at Fair Value as of<br/>September 29, 2012</b>                            |  |  |
|---------------------------------------|---|--|--|
|                                       | <b>Quoted Prices In<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| Foreign exchange derivative contracts | \$  | \$ 107   | \$   |
| Foreign exchange derivative contracts |   | (928)  |  |
| <b>Total</b>                          | <b>\$</b>   | <b>\$ (821)</b>  | <b>\$</b>  |

|                                       | <b>Assets (Liabilities) at Fair Value as of<br/>December 31, 2011</b>                             |  |  |
|---------------------------------------|---|--|--|
|                                       | <b>Quoted Prices In<br/>Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level<br/>1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| Foreign exchange derivative contracts | \$  | \$ 3,660   | \$   |
| Foreign exchange derivative contracts |   | (593)  |  |
| <b>Total</b>                          | <b>\$</b>   | <b>\$ 3,067</b>  | <b>\$</b>  |

***Fair Value of Financial Instruments***

The carrying amounts of cash and cash equivalents, trade accounts receivable, notes receivable and accounts payable approximated fair value as of September 29, 2012 and December 31, 2011. The carrying amount of trade accounts receivable includes allowance for doubtful accounts, chargebacks and other deductions of \$16,393 and \$17,418 as of September 29, 2012 and December 31, 2011, respectively. The fair value of debt, which is classified as a Level 2 liability, was \$1,982,050 and \$2,030,240 as of September 29, 2012 and December 31, 2011 and had a carrying value of \$1,839,160 and \$1,974,710, respectively. The fair values were estimated using quoted market prices as provided in secondary markets which consider the Company's credit risk and market related conditions. The carrying amounts of the Company's notes payable approximated fair value as of September 29, 2012 and December 31, 2011, primarily due to the short-term nature of these instruments.



**(9) Income Taxes**

The Company's effective income tax rate for continuing operations was 8% and 12% for the quarter and nine months ended September 29, 2012, and 20% and 19% for the quarter and nine months ended October 1, 2011, respectively. The lower effective income tax rate for the quarter and nine months ended September 29, 2012 compared to the quarter and nine months ended October 1, 2011 was primarily attributable to an income tax benefit of approximately \$9,000 in the quarter ended September 29, 2012 related to the realization of unrecognized tax benefits resulting from expiration of statutes of limitations and an income tax benefit of approximately \$4,000 in the quarter ended September 29, 2012 related to an increase in research and development tax credits.

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**HANESBRANDS INC.**

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

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

**(unaudited)**

The Company's effective income tax rate for discontinued operations was 33% for the quarter and nine months ended September 29, 2012, and 25% and 27% for the quarter and nine months ended October 1, 2011, respectively.

**(10) Business Segment Information**

As a result of the reduced size of sheer hosiery and changing trends, the Company decided in the first quarter of 2012 to change its external segment reporting to include hosiery operations within the Innerwear segment. Hosiery had previously been reported as a separate segment. Prior-year segment sales and operating profit results, including other minor allocation changes, have been revised to conform to the current-year presentation. As a result of these changes, the Company's operations are now managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Direct to Consumer and International. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses but the segments share a common supply chain and media and marketing platforms.

In addition, as described in Note 3, the Company sold its European imagewear business and is completing the discontinuation of its private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry. As a result, the current year and prior-year segment disclosures do not reflect the sales and operating profit results of these discontinued 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 men's underwear, kids underwear, socks, and intimates, which includes bras, panties, hosiery and shapewear.

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

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

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

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

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

(unaudited)

The Company evaluates the operating performance of its segments based upon segment operating profit, that is defined as operating profit before general corporate expenses and amortization of trademarks and other identifiable intangibles. The accounting policies of the segments are consistent with those described in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2011.

|                    | Quarter Ended |                    | Nine Months Ended |                    |
|--------------------|---------------|--------------------|-------------------|--------------------|
|                    | September     |                    | September         |                    |
|                    | 29,<br>2012   | October 1,<br>2011 | 29,<br>2012       | October 1,<br>2011 |
| <b>Net sales:</b>  |               |                    |                   |                    |
| Innerwear          | \$ 574,278    | \$ 558,422         | \$ 1,748,256      | \$ 1,711,802       |
| Outerwear          | 413,033       | 392,683            | 981,021           | 970,776            |
| Direct to Consumer | 99,111        | 97,565             | 278,396           | 277,819            |
| International      | 132,259       | 136,634            | 364,792           | 372,943            |
| Total net sales    | \$ 1,218,681  | \$ 1,185,304       | \$ 3,372,465      | \$ 3,333,340       |

|   | Quarter Ended |                    | Nine Months Ended |                    |
|---|---------------|--------------------|-------------------|--------------------|
|   | September     |                    | September         |                    |
|   | 29,<br>2012   | October 1,<br>2011 | 29,<br>2012       | October 1,<br>2011 |
| <b>Segment operating profit:</b>                              |               |                    |                   |                    |
| Innerwear   | \$ 96,841     | \$ 88,372          | \$ 269,718        | \$ 265,974         |
| Outerwear   | 46,339        | 48,379             | 24,118            | 94,265             |
| Direct to Consumer  | 14,412        | 12,268             | 24,773            | 21,955             |
| International   | 17,574        | 14,797             | 33,964            | 43,275             |
| Total segment operating profit                                | 175,166       | 163,816            | 352,573           | 425,469            |
| Items not included in segment operating profit:               |               |                    |                   |                    |
| General corporate expenses                                    | (15,311)      | (15,680)           | (55,370)          | (43,052)           |
| Amortization of trademarks and other identifiable intangibles | (3,347)       | (3,192)            | (10,099)          | (9,559)            |
| Total operating profit  | 156,508       | 144,944            | 287,104           | 372,858            |
| Other expenses  | (3,373)       | (880)              | (4,829)           | (2,295)            |
| Interest expense, net   | (32,897)      | (38,255)           | (106,503)         | (118,483)          |
| Income from continuing operations before income tax expense   | \$ 120,238    | \$ 105,809         | \$ 175,772        | \$ 252,080         |



**Table of Contents**

**HANESBRANDS INC.**

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

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

**(unaudited)**

**(11) Consolidating Financial Information**

In accordance with the indenture governing the Company's \$500,000 Floating Rate Senior Notes issued on December 14, 2006, the indenture governing the Company's \$500,000 8% Senior Notes issued on December 10, 2009 and the indenture governing the Company's \$1,000,000 6.375% Senior Notes issued on November 9, 2010 (together, the Indentures), certain of the Company's subsidiaries have guaranteed the Company's obligations under the Floating Rate Senior Notes, the 8% Senior Notes and the 6.375% Senior Notes, respectively. The following presents the condensed consolidating financial information separately for:

- (i) Parent Company, the issuer of the guaranteed obligations. Parent Company includes Hanesbrands Inc. and its 100% owned operating divisions which are not legal entities, and excludes its subsidiaries which are legal entities;
- (ii) Guarantor subsidiaries, on a combined basis, as specified in the Indentures;
- (iii) Non-guarantor subsidiaries, on a combined basis;
- (iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among Parent Company, the guarantor subsidiaries and the non-guarantor subsidiaries, (b) eliminate intercompany profit in inventory, (c) eliminate the investments in our subsidiaries and (d) record consolidating entries; and
- (v) The Company, on a consolidated basis.

The Floating Rate Senior Notes, the 8% Senior Notes and the 6.375% Senior Notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary, each of which is wholly owned, directly or indirectly, by Hanesbrands Inc. A guarantor subsidiary's guarantee can be released in certain customary circumstances. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation.

The Condensed Consolidating Statements of Comprehensive Income for all periods presented have been revised to correct the net sales and cost of sales amounts for intercompany transactions related to the Parent Company and Non-Guarantor Subsidiaries. These revisions reduced net sales and cost of sales for the Parent Company and Non-Guarantor Subsidiaries and reduced the eliminations amounts for the total of the two by \$10,787 and \$301,720, respectively, for the quarter ended October 1, 2011 and \$31,888 and \$874,942, respectively, for the nine months ended October 1, 2011.

The impact on net sales and cost of sales within each specified column is the same amount for all periods and these revisions did not impact consolidated or guarantor results.

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

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

(unaudited)

**Condensed Consolidating Statement of Comprehensive Income  
Quarter Ended September 29, 2012**

|  | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|--|-------------------|---------------------------|-------------------------------|--|--------------|
| Net sales  | \$ 1,015,571      | \$ 197,538                | \$ 632,167                    | \$ (626,595)                                 | \$ 1,218,681 |
| Cost of sales  | 824,981           | 99,793                    | 494,452                       | (600,475)                                    | 818,751      |
| Gross profit   | 190,590           | 97,745                    | 137,715                       | (26,120)                                     | 399,930      |
| Selling, general and administrative expenses                             | 187,016           | 32,865                    | 24,758                        | (1,217)                                      | 243,422      |
| Operating profit   | 3,574             | 64,880                    | 112,957                       | (24,903)                                     | 156,508      |
| Equity in earnings of subsidiaries                                       | 135,794           | 78,342                    |                               | (214,136)                                    |              |
| Other expenses   | 3,373             |                           |                               |  | 3,373        |
| Interest expense, net  | 30,214            | (1)                       | 2,687                         | (3)  | 32,897       |
| Income from continuing operations before income tax<br>expense (benefit) | 105,781           | 143,223                   | 110,270                       | (239,036)                                    | 120,238      |
| Income tax expense (benefit)   | (5,567)           | 8,926                     | 5,696                         |  | 9,055        |
| Income from continuing operations  | 111,348           | 134,297                   | 104,574                       | (239,036)                                    | 111,183      |
| Income (loss) from discontinued operations, net of tax                   | (1,456)           |                           | 165                           |  | (1,291)      |
| Net income   | \$ 109,892        | \$ 134,297                | \$ 104,739                    | \$ (239,036)                                 | \$ 109,892   |
| Comprehensive income   | \$ 114,773        | \$ 134,297                | \$ 105,962                    | \$ (240,259)                                 | \$ 114,773   |

**Condensed Consolidating Statement of Comprehensive Income  
Quarter Ended October 1, 2011**

|  | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|--|-------------------|---------------------------|-------------------------------|--|--------------|
| Net sales                                    | \$ 991,610        | \$ 191,387                | \$ 650,312                    | \$ (648,005)                                 | \$ 1,185,304 |
| Cost of sales                                | 818,471           | 96,888                    | 568,481                       | (712,589)                                    | 771,251      |
| Gross profit                                 | 173,139           | 94,499                    | 81,831                        | 64,584                                       | 414,053      |
| Selling, general and administrative expenses | 199,465           | 32,897                    | 37,039                        | (292)  | 269,109      |
| Operating profit (loss)                      | (26,326)          | 61,602                    | 44,792                        | 64,876                                       | 144,944      |
| Equity in earnings of subsidiaries           | 157,422           | 34,198                    |                               | (191,620)                                    |              |
| Other expenses                               | 880               |                           |                               |  | 880          |
| Interest expense, net                        | 35,802            | (1)                       | 2,454                         |  | 38,255       |

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|   |           |           |           |              |           |
|---|-----------|-----------|-----------|--------------|-----------|
| Income from continuing operations before income tax expense | 94,414    | 95,801    | 42,338    | (126,744)    | 105,809   |
| Income tax expense  | 7,733     | 7,479     | 5,527     |              | 20,739    |
| Income from continuing operations                           | 86,681    | 88,322    | 36,811    | (126,744)    | 85,070    |
| Income from discontinued operations, net of tax             | 4,151     |           | 724       | 887          | 5,762     |
| Net income  | \$ 90,832 | \$ 88,322 | \$ 37,535 | \$ (125,857) | \$ 90,832 |
| Comprehensive income  | \$ 81,639 | \$ 88,322 | \$ 25,500 | \$ (113,822) | \$ 81,639 |

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

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

(unaudited)

**Condensed Consolidating Statement of Comprehensive Income  
Nine Months Ended September 29, 2012**

|   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--|--------------|
| Net sales   | \$ 2,909,716      | \$ 499,345                | \$ 1,727,880                  | \$ (1,764,476)                               | \$ 3,372,465 |
| Cost of sales   | 2,399,275         | 239,531                   | 1,414,140                     | (1,702,457)                                  | 2,350,489    |
| Gross profit  | 510,441           | 259,814                   | 313,740                       | (62,019)                                     | 1,021,976    |
| Selling, general and administrative expenses                          | 548,650           | 97,836                    | 91,767                        | (3,381)                                      | 734,872      |
| Operating profit (loss)   | (38,209)          | 161,978                   | 221,973                       | (58,638)                                     | 287,104      |
| Equity in earnings of subsidiaries                                    | 238,712           | 153,265                   |                               | (391,977)                                    |              |
| Other expenses  | 4,829             |                           |                               |  | 4,829        |
| Interest expense, net   | 98,534            | (8)                       | 7,979                         | (2)  | 106,503      |
| Income from continuing operations before income tax expense (benefit) | 97,140            | 315,251                   | 213,994                       | (450,613)                                    | 175,772      |
| Income tax expense (benefit)  | (14,646)          | 24,656                    | 11,534                        |  | 21,544       |
| Income from continuing operations                                     | 111,786           | 290,595                   | 202,460                       | (450,613)                                    | 154,228      |
| Loss from discontinued operations, net of tax                         | (27,493)          | (31,791)                  | (14,636)                      | 3,985  | (69,935)     |
| Net income  | \$ 84,293         | \$ 258,804                | \$ 187,824                    | \$ (446,628)                                 | \$ 84,293    |
| Comprehensive income  | \$ 92,489         | \$ 258,804                | \$ 187,116                    | \$ (445,920)                                 | \$ 92,489    |

**Condensed Consolidating Statement of Comprehensive Income  
Nine Months Ended October 1, 2011**

|  | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Entries and<br>Eliminations | Consolidated |
|--|-------------------|---------------------------|-------------------------------|--|--------------|
| Net sales                                    | \$ 2,930,724      | \$ 501,886                | \$ 1,887,656                  | \$ (1,986,926)                               | \$ 3,333,340 |
| Cost of sales                                | 2,304,124         | 240,932                   | 1,579,612                     | (1,956,363)                                  | 2,168,305    |
| Gross profit                                 | 626,600           | 260,954                   | 308,044                       | (30,563)                                     | 1,165,035    |
| Selling, general and administrative expenses | 595,121           | 98,775                    | 98,972                        | (691)  | 792,177      |
| Operating profit                             | 31,479            | 162,179                   | 209,072                       | (29,872)                                     | 372,858      |
| Equity in earnings of subsidiaries           | 308,288           | 147,809                   |                               | (456,097)                                    |              |
| Other expenses                               | 2,295             |                           |                               |  | 2,295        |
| Interest expense, net                        | 110,773           | (35)                      | 7,745                         |  | 118,483      |



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|   |            |            |            |              |            |
|---|------------|------------|------------|--------------|------------|
| Income from continuing operations before income tax expense | 226,699    | 310,023    | 201,327    | (485,969)    | 252,080    |
| Income tax expense  | 14,532     | 21,353     | 12,398     |              | 48,283     |
| Income from continuing operations                           | 212,167    | 288,670    | 188,929    | (485,969)    | 203,797    |
| Income from discontinued operations, net of tax             | 13,556     |            | 7,034      | 1,336        | 21,926     |
| Net income  | \$ 225,723 | \$ 288,670 | \$ 195,963 | \$ (484,633) | \$ 225,723 |
| Comprehensive income  | \$ 228,627 | \$ 288,670 | \$ 189,417 | \$ (478,087) | \$ 228,627 |

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

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

(unaudited)

| <b>Condensed Consolidating Balance Sheet</b>       |                           |                                   |                                       |   |                     |
|--|---------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| <b>September 29, 2012</b>                          |                           |                                   |                                       |   |                     |
|  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
| <b>Assets</b>                                      |                           |                                   |                                       |   |                     |
| Cash and cash equivalents                          | \$ 92,026                 | \$ 3,029                          | \$ 87,214                             | \$  | \$ 182,269          |
| Trade accounts receivable, net                     | 50,140                    | 56,008                            | 479,342                               |   | 585,490             |
| Inventories  | 946,144                   | 124,792                           | 407,498                               | (137,658)   | 1,340,776           |
| Deferred tax assets                                | 172,306                   | (1,105)                           | (14,269)                              |   | 156,932             |
| Other current assets                               | 23,414                    | 10,317                            | 19,681                                | (25)  | 53,387              |
| <b>Total current assets</b>                        | <b>1,284,030</b>          | <b>193,041</b>                    | <b>979,466</b>                        | <b>(137,683)</b>                                      | <b>2,318,854</b>    |
| Property, net                                      | 93,376                    | 43,598                            | 469,037                               |   | 606,011             |
| Trademarks and other identifiable intangibles, net | 11,603                    | 95,483                            | 15,985                                |   | 123,071             |
| Goodwill   | 232,882                   | 124,247                           | 76,192                                |   | 433,321             |
| Investments in subsidiaries                        | 2,130,565                 | 1,201,656                         |                                       | (3,332,221)   |                     |
| Deferred tax assets                                | 177,857                   | 177,432                           | 41,378                                |   | 396,667             |
| Other noncurrent assets                            | (628,351)                 | 533,986                           | 402,029                               | (246,029)   | 61,635              |
| <b>Total assets</b>                                | <b>\$ 3,301,962</b>       | <b>\$ 2,369,443</b>               | <b>\$ 1,984,087</b>                   | <b>\$ (3,715,933)</b>                                 | <b>\$ 3,939,559</b> |
| <b>Liabilities and Stockholders Equity</b>         |                           |                                   |                                       |   |                     |
| Accounts payable                                   | \$ 223,267                | \$ 16,199                         | \$ 189,700                            | \$  | \$ 429,166          |
| Accrued liabilities                                | 134,595                   | 54,242                            | 70,945                                | (10)  | 259,772             |
| Notes payable                                      |                           |                                   | 50,778                                |   | 50,778              |
| Accounts Receivable Securitization Facility        |                           |                                   | 193,975                               |   | 193,975             |
| Current portion of long-term debt                  | 145,185                   |                                   |                                       |   | 145,185             |
| <b>Total current liabilities</b>                   | <b>503,047</b>            | <b>70,441</b>                     | <b>505,398</b>                        | <b>(10)</b>   | <b>1,078,876</b>    |
| Long-term debt                                     | 1,500,000                 |                                   |                                       |   | 1,500,000           |
| Pension and postretirement benefits                | 460,535                   |                                   | 10,800                                |   | 471,335             |
| Other noncurrent liabilities                       | 61,313                    | 35,871                            | 15,096                                | 1   | 112,281             |
| <b>Total liabilities</b>                           | <b>2,524,895</b>          | <b>106,312</b>                    | <b>531,294</b>                        | <b>(9)</b>  | <b>3,162,492</b>    |
| Stockholders equity                                | 777,067                   | 2,263,131                         | 1,452,793                             | (3,715,924)   | 777,067             |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 3,301,962</b>       | <b>\$ 2,369,443</b>               | <b>\$ 1,984,087</b>                   | <b>\$ (3,715,933)</b>                                 | <b>\$ 3,939,559</b> |

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

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

(unaudited)

| <b>Condensed Consolidating Balance Sheet</b>       |                           |                                   |                                       |   |                     |
|--|---------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| <b>December 31, 2011</b>                           |                           |                                   |                                       |   |                     |
|  | <b>Parent<br/>Company</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
| <b>Assets</b>                                      |                           |                                   |                                       |   |                     |
| Cash and cash equivalents                          | \$ 8,330                  | \$ 2,726                          | \$ 24,289                             | \$  | \$ 35,345           |
| Trade accounts receivable, net                     | 24,452                    | 32,535                            | 418,052                               | (4,326)   | 470,713             |
| Inventories  | 1,172,582                 | 112,229                           | 423,829                               | (101,085)   | 1,607,555           |
| Deferred tax assets                                | 168,843                   | (1,105)                           | (13,071)                              |   | 154,667             |
| Other current assets                               | 26,626                    | 10,282                            | 25,785                                | (182)   | 62,511              |
| <b>Total current assets</b>                        | <b>1,400,833</b>          | <b>156,667</b>                    | <b>878,884</b>                        | <b>(105,593)</b>                                      | <b>2,330,791</b>    |
| Property, net                                      | 107,482                   | 46,553                            | 481,371                               |   | 635,406             |
| Trademarks and other identifiable intangibles, net | 13,430                    | 134,110                           | 22,135                                |   | 169,675             |
| Goodwill   | 232,882                   | 124,247                           | 76,267                                |   | 433,396             |
| Investments in subsidiaries                        | 1,897,579                 | 1,059,475                         |                                       | (2,957,054)   |                     |
| Deferred tax assets                                | 175,981                   | 177,432                           | 40,807                                |   | 394,220             |
| Other noncurrent assets                            | (432,466)                 | 381,951                           | 345,157                               | (223,461)   | 71,181              |
| <b>Total assets</b>                                | <b>\$ 3,395,721</b>       | <b>\$ 2,080,435</b>               | <b>\$ 1,844,621</b>                   | <b>\$ (3,286,108)</b>                                 | <b>\$ 4,034,669</b> |
| <b>Liabilities and Stockholders Equity</b>         |                           |                                   |                                       |   |                     |
| Accounts payable                                   | \$ 236,913                | \$ 17,036                         | \$ 197,576                            | \$  | \$ 451,525          |
| Accrued liabilities                                | 120,807                   | 53,669                            | 77,713                                | (3)   | 252,186             |
| Notes payable                                      |                           |                                   | 63,075                                |   | 63,075              |
| Accounts Receivable Securitization Facility        |                           |                                   | 166,933                               |   | 166,933             |
| <b>Total current liabilities</b>                   | <b>357,720</b>            | <b>70,705</b>                     | <b>505,297</b>                        | <b>(3)</b>  | <b>933,719</b>      |
| Long-term debt                                     | 1,807,777                 |                                   |                                       |   | 1,807,777           |
| Pension and postretirement benefits                | 474,786                   |                                   | 10,902                                |   | 485,688             |
| Other noncurrent liabilities                       | 74,377                    | 36,434                            | 15,613                                |   | 126,424             |
| <b>Total liabilities</b>                           | <b>2,714,660</b>          | <b>107,139</b>                    | <b>531,812</b>                        | <b>(3)</b>  | <b>3,353,608</b>    |
| Stockholders equity                                | 681,061                   | 1,973,296                         | 1,312,809                             | (3,286,105)   | 681,061             |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 3,395,721</b>       | <b>\$ 2,080,435</b>               | <b>\$ 1,844,621</b>                   | <b>\$ (3,286,108)</b>                                 | <b>\$ 4,034,669</b> |

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

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

(unaudited)

|  | <b>Condensed Consolidating Statement of Cash Flows</b> |                                   |                                       |   |                     |
|--|--|-----------------------------------|---------------------------------------|---|---------------------|
|  | <b>Nine Months Ended September 29, 2012</b>            |                                   |                                       |   |                     |
|  | <b>Parent<br/>Company</b>                              | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
| Net cash provided by operating activities                    | \$ 531,201   | \$ 116,698                        | \$ 53,477                             | \$ (391,971)  | \$ 309,405          |
| Investing activities:  |  |                                   |                                       |   |                     |
| Capital expenditures   | (6,107)  | (5,147)                           | (17,908)                              |   | (29,162)            |
| Disposition of business                                      |  |                                   | 12,708                                |   | 12,708              |
| Net cash used in investing activities                        | (6,107)  | (5,147)                           | (5,200)                               |   | (16,454)            |
| Financing activities:  |  |                                   |                                       |   |                     |
| Borrowings on notes payable                                  |  |                                   | 43,251                                |   | 43,251              |
| Repayments on notes payable                                  |  |                                   | (55,645)                              |   | (55,645)            |
| Borrowings on Accounts Receivable<br>Securitization Facility |  |                                   | 156,817                               |   | 156,817             |
| Repayments on Accounts Receivable<br>Securitization Facility |  |                                   | (129,775)                             |   | (129,775)           |
| Borrowings on Revolving Loan Facility                        | 2,177,000  |                                   |                                       |   | 2,177,000           |
| Repayments on Revolving Loan Facility                        | (2,191,500)  |                                   |                                       |   | (2,191,500)         |
| Redemption of Floating Rate Senior Notes                     | (148,092)  |                                   |                                       |   | (148,092)           |
| Proceeds from stock options exercised                        | 4,103  |                                   |                                       |   | 4,103               |
| Other  | (2,051)  |                                   | (297)                                 |   | (2,348)             |
| Net transactions with related entities                       | (280,859)  | (111,248)                         | 136                                   | 391,971   |                     |
| Net cash provided by (used in) financing<br>activities       | (441,399)  | (111,248)                         | 14,487                                | 391,971   | (146,189)           |
| Effect of changes in foreign exchange rates on<br>cash       | 1  |                                   | 161                                   |   | 162                 |
| Increase in cash and cash equivalents                        | 83,696   | 303                               | 62,925                                |   | 146,924             |
| Cash and cash equivalents at beginning of year               | 8,330  | 2,726                             | 24,289                                |   | 35,345              |
| Cash and cash equivalents at end of period                   | \$ 92,026  | \$ 3,029                          | \$ 87,214                             | \$  | \$ 182,269          |

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

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

(unaudited)

|  | <b>Condensed Consolidating Statement of Cash Flows<br/>Nine Months Ended October 1, 2011</b> |                                   |                                       |   |                     |
|--|--|-----------------------------------|---------------------------------------|---|---------------------|
|  | <b>Parent<br/>Company</b>  | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
| Net cash provided by (used in) operating activities          | \$ 377,231   | \$ 131,185                        | \$ (75,437)                           | \$ (459,853)  | \$ (26,874)         |
| Investing activities:  |  |                                   |                                       |   |                     |
| Capital expenditures   | (11,234)   | (8,084)                           | (36,767)                              |   | (56,085)            |
| Acquisition of business                                      |  |                                   | (9,154)                               |   | (9,154)             |
| Net cash used in investing activities                        | (11,234)   | (8,084)                           | (45,921)                              |   | (65,239)            |
| Financing activities:  |  |                                   |                                       |   |                     |
| Borrowings on notes payable                                  |  |                                   | 305,257                               |   | 305,257             |
| Repayments on notes payable                                  |  |                                   | (322,185)                             |   | (322,185)           |
| Borrowings on Accounts Receivable<br>Securitization Facility |  |                                   | 229,396                               |   | 229,396             |
| Repayments on Accounts Receivable<br>Securitization Facility |  |                                   | (144,396)                             |   | (144,396)           |
| Borrowings on Revolving Loan Facility                        | 2,448,500  |                                   |                                       |   | 2,448,500           |
| Repayments on Revolving Loan Facility                        | (2,433,500)  |                                   |                                       |   | (2,433,500)         |
| Proceeds from stock options exercised                        | 16,784   |                                   |                                       |   | 16,784              |
| Other  | (1,659)  |                                   | (705)                                 |   | (2,364)             |
| Net transactions with related entities                       | (401,131)  | (123,085)                         | 64,363                                | 459,853   |                     |
| Net cash provided by (used in) financing activities          | (371,006)  | (123,085)                         | 131,730                               | 459,853   | 97,492              |
| Effect of changes in foreign exchange rates on cash          |  |                                   | (1,053)                               |   | (1,053)             |
| Increase (decrease) in cash and cash equivalents             | (5,009)  | 16                                | 9,319                                 |   | 4,326               |
| Cash and cash equivalents at beginning of year               | 17,535   | 2,039                             | 24,097                                |   | 43,671              |
| Cash and cash equivalents at end of period                   | \$ 12,526  | \$ 2,055                          | \$ 33,416                             | \$  | \$ 47,997           |

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

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" in this Quarterly Report on Form 10-Q for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 31, 2011, which were included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those included elsewhere in this Quarterly Report on Form 10-Q and those included in the "Risk Factors" section and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2011, those included in the "Risk Factors" section and elsewhere in our Annual Report on Form 10-K and in the investors section of the company's corporate website, <http://tiny.cc/HanesBrandsIR>.

**Overview**

We are a consumer goods company with a portfolio of leading apparel brands, including *Hanes*, *Champion*, *Bali*, *Playtex*, *Just My Size*, *Leggs*, *barely there*, *Wonderbra*, *Gear for Sports*, *Zorba*, *Rinbros*, *Sol y Oro* and *Duofold*. We design, manufacture, source and sell a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, kids' underwear, casualwear, activewear, socks and hosiery.

As a result of the reduced size of our sheer hosiery business and changing trends, we decided in the first quarter of 2012 to change our external segment reporting to include hosiery operations within the Innerwear segment. Hosiery had previously been reported as a separate segment. Prior-year segment sales and operating profit results, including other minor allocation changes, have been revised to conform to the current-year presentation. As a result of these changes, our operations are now managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Direct to Consumer and International. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms.

**Discontinued Operations**

We narrowed the focus of our worldwide imagewear business during the second quarter of 2012, which led us to sell our European imagewear business and discontinue our private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry.

The sale of our European imagewear business to Smartwares, B.V. for \$15 million (approximately \$13 million, net of fees and other transaction related costs) in cash proceeds, resulted in a pre-tax loss of approximately \$32 million in the second quarter of 2012. The sale of our European imagewear business is consistent with our strategic direction to narrow the focus of our worldwide imagewear business by restructuring to exit noncore segments and reduce risk.

In connection with the discontinuation of our private-label and Outer Banks domestic imagewear operations, we incurred pre-tax charges of approximately \$58 million in the second quarter of 2012, substantially all noncash, for the write-down of intangibles, inventory markdowns and other related items.

The execution of our new worldwide imagewear strategy allows us to focus our imagewear business (now known as branded printwear) on *Hanes* and *Champion* branded products in the United States with improved

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operating margins. This restructuring is expected to result in a smaller, more profitable and less volatile operation in the longer term. Our branded printwear operations will continue to operate and serve the branded domestic screen-print market with the results of these operations being reported in the Outerwear segment. Annual sales of our branded printwear business are expected to be approximately \$150 million in 2013 down from projected annual net sales of \$180 million to \$190 million in 2012.

As a result of these actions, the current year and prior-year disclosures reflect these operations as discontinued operations.

### ***Outlook***

We continue to operate in an uncertain and volatile economic environment. After taking into consideration our worldwide imagewear restructuring and operating performance in the first nine months of 2012, we expect diluted earnings per share from continuing operations of \$2.54 to \$2.60 in 2012, compared with previous guidance of \$2.50 to \$2.60. Net sales are expected to be approximately \$4.52 billion in 2012, compared with previous guidance of \$4.52 billion to \$4.57 billion.

Our guidance is based on the following facts. Product pricing, shelf space, and promotion plans for the remainder of 2012 have been finalized with major retail accounts. All commodity costs have been fixed for the remainder of the year, with the company incurring significantly lower cotton and other inflation impacts the remainder of the year.

We are focused on delivering profitable growth and remain highly committed to strong cash flow generation and utilizing that cash flow to pay down debt. Through expected improvements in working capital, primarily from reduction in inventory as a result of declining cotton costs and unit levels, and operating results, we expect to generate approximately \$545 million in operating cash flows in 2012, the high end of the previous range of \$445 million to \$545 million. We have already started executing our debt reduction plan by redeeming approximately \$148 million of the Floating Rate Senior Notes in July 2012, with the remaining balance of \$145 million redeemed in October 2012. We typically use cash for the first half of the year and generate most of our cash flow in the second half of the year.

### ***Seasonality and Other Factors***

Our operating results are subject to some variability due to seasonality and other factors. Generally, our diverse range of product offerings helps mitigate the impact of seasonal changes in demand for certain items. We generally have higher sales during back-to-school shopping and holiday selling seasons and during periods of cooler weather, which benefits certain product categories such as fleece. Sales levels in any period are also impacted by customers' decisions to increase or decrease their inventory levels in response to anticipated consumer demand. Our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice to us. Media, advertising and promotion expenses may vary from period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions.

Although the majority of our products are replenishment in nature and tend to be purchased by consumers on a planned, rather than on an impulse, basis, our sales are impacted by discretionary spending by consumers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, taxation, gasoline prices, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside our control. Consumers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. These consumers may choose to purchase fewer of our

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products or to purchase lower-priced products of our competitors in response to higher prices for our products, or may choose not to purchase our products at prices that reflect our price increases that become effective from time to time.

Changes in product sales mix can impact our gross profit as the percentage of our sales attributable to higher margin products, such as intimate apparel and men's underwear, and lower margin products, such as casualwear and activewear, fluctuate from time to time. In addition, sales attributable to higher and lower margin products within the same product category fluctuate from time to time. Our customers may change the mix of products ordered with minimal notice to us, which makes trends in product sales mix difficult to predict. However, certain changes in product sales mix are seasonal in nature, as sales of socks, hosiery and fleece products generally have higher sales during the last two quarters (July to December) of each fiscal year as a result of cooler weather, back-to-school shopping and holidays, while other changes in product mix may be attributable to customers' preferences and discretionary spending.

### **Highlights from the Third Quarter and Nine Months Ended September 29, 2012**

Total net sales in the third quarter of 2012 were \$1.22 billion, compared with \$1.19 billion in the same quarter of 2011, representing a 3% increase. Total net sales in the nine months of 2012 were \$3.37 billion, compared to \$3.33 billion in the same period of 2011.

Operating profit was \$157 million in the third quarter of 2012, compared with \$145 million in the same quarter of 2011. As a percent of sales, operating profit was 12.8% in the third quarter of 2012 compared to 12.2% in the same quarter of 2011. Operating profit was \$287 million in the nine months of 2012, compared with \$373 million in the same period of 2011. As a percent of sales, operating profit was 8.5% in the nine months of 2012, compared to 11.2% in the same period of 2011.

Diluted earnings per share from continuing operations was \$1.11 in the third quarter of 2012, compared with \$0.85 in the same quarter of 2011. Diluted earnings per share from continuing operations was \$1.54 in the nine months of 2012, compared to \$2.05 in the same period of 2011.

Net capital expenditures were \$29 million during the nine months of 2012, compared to \$56 million in the same period of 2011.

We have already started executing our debt reduction plan by redeeming approximately \$148 million of the Floating Rate Senior Notes in July 2012, with the remaining balance of \$145 million redeemed in October 2012.

We narrowed the focus of our worldwide imagewear business during the second quarter of 2012, resulting in the sale of our European imagewear business and the discontinuation of our private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry. The sale of our European imagewear business to Smartwares, B.V. resulted in a pre-tax loss of approximately \$32 million in the second quarter of 2012. In connection with the discontinuation of our private-label and Outer Banks domestic imagewear operations, we incurred pre-tax charges of approximately \$58 million in the second quarter of 2012, substantially all noncash, for the write-down of intangibles, inventory markdowns and other related items.





*Selling, General and Administrative Expenses*

Selling, general and administrative expenses were \$26 million lower in the third quarter of 2012 compared to the third quarter of 2011. The lower selling, general and administrative expenses were primarily attributable to lower media spending and lower distribution expenses. As a percentage of net sales, our selling, general and administrative expenses were 20.0% in the third quarter of 2012 compared to 22.7% in the third quarter of 2011.

**Table of Contents****Other Highlights**

**Interest Expense** lower by \$5 million in the third quarter of 2012 compared to the third quarter of 2011 primarily due to lower outstanding debt balances. Our weighted average interest rate on our outstanding debt was 5.76% during the third quarter of 2012, compared to 5.50% in the third quarter of 2011.

**Income Tax Expense** our effective income tax rate for continuing operations was 8% and 20% for the third quarter of 2012 and the third quarter of 2011, respectively. The lower effective income tax rate was primarily attributable to an income tax benefit of approximately \$9 million in the third quarter of 2012 related to the realization of unrecognized tax benefits resulting from expiration of statutes of limitations and an income tax benefit of approximately \$4 million in the third quarter of 2012 related to an increase in research and development tax credits.

**Discontinued Operations** the results of our discontinued operations include the sale of our European imagewear business and the discontinuation of our private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry.

**Operating Results by Business Segment Third Quarter Ended September 29, 2012 Compared with Third Quarter Ended October 1, 2011**

|                    | Net Sales<br>Quarter Ended |                    | Operating Profit<br>Quarter Ended |                    |
|--------------------|----------------------------|--------------------|-----------------------------------|--------------------|
|                    | September 29,<br>2012      | October 1,<br>2011 | September 29,<br>2012             | October 1,<br>2011 |
|                    | (dollars in thousands)     |                    |                                   |                    |
| Innerwear          | \$ 574,278                 | \$ 558,422         | \$ 96,841                         | \$ 88,372          |
| Outerwear          | 413,033                    | 392,683            | 46,339                            | 48,379             |
| Direct to Consumer | 99,111                     | 97,565             | 14,412                            | 12,268             |
| International      | 132,259                    | 136,634            | 17,574                            | 14,797             |
| Corporate          |                            |                    | (18,658)                          | (18,872)           |
| Total              | \$ 1,218,681               | \$ 1,185,304       | \$ 156,508                        | \$ 144,944         |

**Innerwear**

|                          | Quarter Ended          |                    | Higher<br>(Lower) | Percent<br>Change |
|--------------------------|------------------------|--------------------|-------------------|-------------------|
|                          | September 29,<br>2012  | October 1,<br>2011 |                   |                   |
|                          | (dollars in thousands) |                    |                   |                   |
| Net sales                | \$ 574,278             | \$ 558,422         | \$ 15,856         | 2.8 %             |
| Segment operating profit | 96,841                 | 88,372             | 8,469             | 9.6               |

Overall net sales in the Innerwear segment were higher by \$16 million, or 3%, in the third quarter of 2012 compared to the third quarter of 2011. Excluding the declines associated with a mid-tier retail customer that is undergoing a major strategic shift, net sales increased 5% in the third quarter of 2012. The higher net sales were primarily driven by the following:

Stronger net sales in our men's underwear (9%) and kids' underwear (10%) categories primarily resulting from price increases and space gains, partially offset by lower unit sales volume within the men's underwear category.

Socks category net sales were flat, primarily due to price increases and space gains, offset by lower unit sales volume.

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Lower net sales in our intimate apparel category (2%), primarily due to lower net sales of bras and hosiery, partially offset by higher net sales of panties. The lower intimate apparel net sales was primarily the result of lower unit sales volume, partially offset by price increases and space gains.

Innerwear segment operating profit was \$8 million higher in the third quarter of 2012 compared to the third quarter of 2011 primarily due to price increases, efficiency savings related to our supply chain optimization, lower media spending and lower distribution expenses. These lower costs were partially offset by cost inflation, particularly cotton, and lower unit sales volume.

**Outerwear**

|                          | Quarter Ended         |                    | Higher<br>(Lower) | Percent<br>Change |
|--------------------------|-----------------------|--------------------|-------------------|-------------------|
|                          | September 29,<br>2012 | October 1,<br>2011 |                   |                   |
| Net sales                | \$ 413,033            | \$ 392,683         | \$ 20,350         | 5.2 %             |
| Segment operating profit | 46,339                | 48,379             | (2,040)           | (4.2)             |

(dollars in thousands)

Outerwear segment net sales were higher by \$20 million, or 5%, in the third quarter of 2012 compared to the third quarter of 2011. The higher net sales were primarily due to the following:

Higher net sales in our activewear category (15%), primarily due to higher unit sales volume and space gains.

Higher net sales in our Gear for Sports licensed apparel (7%), primarily due to higher unit sales volume and space gains.

Lower net sales in our casualwear product category (3%) is primarily attributable to lower unit sales volume.

Lower net sales in our branded printwear category (7%), primarily due to lower unit sales volume especially in lightweight commodity-oriented products.

Outerwear segment operating profit was \$2 million lower in the third quarter of 2012 compared to the third quarter of 2011 primarily due to cost inflation, mostly related to higher cotton prices, partially offset by efficiency savings related to our supply chain optimization and lower excess and obsolete inventory costs.

**Direct to Consumer**

|                          | Quarter Ended         |                    | Higher<br>(Lower) | Percent<br>Change |
|--------------------------|-----------------------|--------------------|-------------------|-------------------|
|                          | September 29,<br>2012 | October 1,<br>2011 |                   |                   |
| Net sales                | \$ 99,111             | \$ 97,565          | \$ 1,546          | 1.6 %             |
| Segment operating profit | 14,412                | 12,268             | 2,144             | 17.5              |

(dollars in thousands)

Direct to Consumer segment net sales were higher by \$2 million in the third quarter of 2012 compared to the third quarter of 2011 primarily due to higher net sales related to our Internet operations. Comparable store sales were 1% higher in the third quarter of 2012 compared to 2011.

Direct to Consumer segment operating profit was \$2 million higher in the third quarter of 2012 compared to 2011 primarily due to price increases and lower spending.



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|                          | Quarter Ended          |                    |                   |                   |
|--------------------------|------------------------|--------------------|-------------------|-------------------|
|                          | September 29,<br>2012  | October 1,<br>2011 | Higher<br>(Lower) | Percent<br>Change |
|                          | (dollars in thousands) |                    |                   |                   |
| Net sales                | \$ 132,259             | \$ 136,634         | \$ (4,375)        | (3.2) %           |
| Segment operating profit | 17,574                 | 14,797             | 2,777             | 18.8              |

Overall net sales in the International segment were lower by \$4 million, or 3%, in the third quarter of 2012 compared to the third quarter of 2011 primarily due to an unfavorable impact of foreign exchange rates.

Excluding the unfavorable impact of foreign exchange rates, International segment net sales were 2% higher, primarily due to higher unit sales volume in our intimate apparel product category in Canada and in our socks and casualwear product categories in Asia.

International segment operating profit was higher by \$3 million in the third quarter of 2012 compared to 2011 primarily due to lower media spending and price increases, which were offset by cost inflation and an unfavorable impact related to foreign currency exchange rates.

**General Corporate Expenses**

General corporate expenses were slightly lower in the third quarter of 2012 compared to the third quarter of 2011 primarily due to higher foreign exchange transactions gains, partially offset by higher compensation-related expenses, such as long-term incentive compensation costs and pension expense.

**Condensed Consolidated Results of Operations Nine Months Ended September 29, 2012 Compared with Nine Months Ended October 1, 2011**

|   | Nine Months Ended      |                    |                   |                   |
|---|------------------------|--------------------|-------------------|-------------------|
|   | September 29,<br>2012  | October 1,<br>2011 | Higher<br>(Lower) | Percent<br>Change |
|   | (dollars in thousands) |                    |                   |                   |
| Net sales   | \$ 3,372,465           | \$ 3,333,340       | \$ 39,125         | 1.2 %             |
| Cost of sales   | 2,350,489              | 2,168,305          | 182,184           | 8.4               |
| Gross profit  | 1,021,976              | 1,165,035          | (143,059)         | (12.3)            |
| Selling, general and administrative expenses                | 734,872                | 792,177            | (57,305)          | (7.2)             |
| Operating profit  | 287,104                | 372,858            | (85,754)          | (23.0)            |
| Other expenses  | 4,829                  | 2,295              | 2,534             | 110.4             |
| Interest expense, net                                       | 106,503                | 118,483            | (11,980)          | (10.1)            |
| Income from continuing operations before income tax expense | 175,772                | 252,080            | (76,308)          | (30.3)            |
| Income tax expense  | 21,544                 | 48,283             | (26,739)          | (55.4)            |
| Income from continuing operations                           | 154,228                | 203,797            | (49,569)          | (24.3)            |
| Income (loss) from discontinued operations, net of tax      | (69,935)               | 21,926             | (91,861)          | NM                |
| Net income  | \$ 84,293              | \$ 225,723         | \$ (141,430)      | (62.7) %          |

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### ***Net Sales***

Consolidated net sales were higher by \$39 million, or 1%, in the nine months of 2012 compared to the same period of 2011. The higher net sales primarily resulted from the following:

Stronger net sales of our men's underwear and kids' underwear product categories primarily resulting from price increases and space gains, partially offset by lower unit sales volume.

Higher net sales in activewear and casualwear product categories as a result of higher unit sales volume and space gains.

Lower net sales in our intimate apparel product category primarily due to lower net sales of bras and hosiery, partially offset by higher net sales of panties. The lower intimate apparel net sales were primarily the result of lower unit sales volume, partially offset by price increases and space gains.

Lower net sales in our branded printwear category primarily due to lower unit sales volume, especially in lightweight commodity-oriented products.

Lower net sales in the International segment primarily due to an unfavorable impact of foreign exchange rates.

### ***Gross Profit***

Gross profit was \$143 million lower in the nine months of 2012 as compared to the same period of 2011. As a percentage of net sales, our gross profit was 30.3% in the nine months of 2012 compared to 35.0% in the same period of 2011. The lower gross profit was impacted by cost inflation, primarily higher cotton costs, partially offset by price increases and efficiency savings from our supply chain.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses were \$57 million lower in the nine months of 2012 compared to the same period of 2011. The lower selling, general and administrative expenses were primarily attributable to lower media spending and lower distribution expenses. As a percentage of net sales, our selling, general and administrative expenses were 21.8% in the nine months of 2012 compared to 23.8% in the same period of 2011.

### ***Other Highlights***

*Interest Expense* lower by \$12 million in the nine months of 2012 compared to the same period of 2011 primarily due to lower outstanding debt balances. Our weighted average interest rate on our outstanding debt was 5.74% during the nine months of 2012 compared to 5.62% in the same period of 2011.

*Income Tax Expense* our effective income tax rate for continuing operations was 12% and 19% for the nine months 2012 and the same period of 2011, respectively. The lower effective income tax rate was primarily attributable to an income tax benefit of approximately \$9 million in the nine months of 2012 related to the realization of unrecognized tax benefits resulting from expiration of statutes of limitations and an income tax benefit of approximately \$4 million in the nine months of 2012 related to an increase in research and development tax credits.

*Discontinued Operations* the results of our discontinued operations include the sale of our European imagewear business and the discontinuation of our private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry. In addition to the operations of these businesses, the following charges were included in discontinued operations:

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The sale of our European imagewear business to Smartwares, B.V. for 15 million (approximately \$13 million, net of fees and other transaction related costs) in cash proceeds, resulted in a pre-tax loss of approximately \$32 million in the second quarter of 2012.



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In connection with the discontinuation of our private-label and Outer Banks domestic imagewear operations, we incurred pre-tax charges of approximately \$58 million in the second quarter of 2012, substantially all noncash, for the write-down of intangibles, inventory markdowns and other related items.

**Operating Results by Business Segment Nine Months Ended September 29, 2012 Compared with Nine Months Ended October 1, 2011**

|                    | Net Sales              |                    | Operating Profit      |                    |
|--------------------|------------------------|--------------------|-----------------------|--------------------|
|                    | Nine Months Ended      |                    | Nine Months Ended     |                    |
|                    | September 29,<br>2012  | October 1,<br>2011 | September 29,<br>2012 | October 1,<br>2011 |
|                    | (dollars in thousands) |                    |                       |                    |
| Innerwear          | \$ 1,748,256           | \$ 1,711,802       | \$ 269,718            | \$ 265,974         |
| Outerwear          | 981,021                | 970,776            | 24,118                | 94,265             |
| Direct to Consumer | 278,396                | 277,819            | 24,773                | 21,955             |
| International      | 364,792                | 372,943            | 33,964                | 43,275             |
| Corporate          |                        |                    | (65,469)              | (52,611)           |
| Total net sales    | \$ 3,372,465           | \$ 3,333,340       | \$ 287,104            | \$ 372,858         |

**Innerwear**

|                          | Nine Months Ended      |                    | Higher<br>(Lower) | Percent<br>Change |
|--------------------------|------------------------|--------------------|-------------------|-------------------|
|                          | September 29,<br>2012  | October 1,<br>2011 |                   |                   |
|                          | (dollars in thousands) |                    |                   |                   |
| Net sales                | \$ 1,748,256           | \$ 1,711,802       | \$ 36,454         | 2.1 %             |
| Segment operating profit | 269,718                | 265,974            | 3,744             | 1.4               |

Overall net sales in the Innerwear segment were higher by \$36 million, or 2%, in the nine months of 2012 compared to the same period of 2011. Excluding the declines associated with a mid-tier retail customer that is undergoing a major strategic shift, net sales increased 4% in the nine months of 2012. Innerwear net sales growth has increased for three consecutive quarters in 2012. The higher net sales were primarily driven by the following:

Stronger net sales in our men's underwear (6%) and kids' underwear (15%) categories primarily resulting from price increases and space gains, partially offset by lower unit sales volume.

Lower net sales in our intimate apparel category (2%), primarily due to lower net sales of bras and hosiery, partially offset by higher net sales of panties. The lower intimate apparel net sales were primarily the result of lower unit sales volume, partially offset by price increases and space gains.

Lower net sales in our socks product category (2%), primarily due to lower *Hanes* brand net sales partially offset by higher *Champion* brand net sales. The lower *Hanes* brand net sales were primarily due to lower unit sales volume, partially offset by price increases, while the higher *Champion* brand net sales were driven primarily by higher unit sales volume and space gains.

Innerwear segment operating profit was \$4 million higher in the nine months of 2012 compared to the same period of 2011 primarily due to price increases, efficiency savings related to our supply chain optimization, lower media spending and lower distribution costs. These lower costs were partially offset by cost inflation, particularly cotton, and lower unit sales volume.

**Table of Contents****Outerwear**

|                          | Nine Months Ended      |                    | Higher<br>(Lower) | Percent<br>Change |
|--------------------------|------------------------|--------------------|-------------------|-------------------|
|                          | September 29,<br>2012  | October 1,<br>2011 |                   |                   |
|                          | (dollars in thousands) |                    |                   |                   |
| Net sales                | \$ 981,021             | \$ 970,776         | \$ 10,245         | 1.1 %             |
| Segment operating profit | 24,118                 | 94,265             | (70,147)          | (74.4)            |

Outerwear segment net sales were higher by \$10 million, or 1%, in the nine months of 2012 compared to the same period of 2011. The higher net sales were primarily due to the following:

Higher net sales in our activewear category (12%), primarily due to higher unit sales volume, price increases and space gains.

Higher net sales in our retail casualwear category (4%), primarily due to space gains for our *Hanes* brand in the mass merchant channel.

Lower net sales in our branded printwear category (23%), primarily due to lower unit sales volume especially in lightweight commodity-oriented products.

Outerwear segment operating profit was \$70 million lower in the six months of 2012 compared to the same period of 2011 primarily due to cost inflation, mostly related to cotton. These higher costs were partially offset by efficiency savings related to our supply chain optimization, lower excess and obsolete inventory costs and lower media spending.

**Direct to Consumer**

|                          | Nine Months Ended      |                    | Higher<br>(Lower) | Percent<br>Change |
|--------------------------|------------------------|--------------------|-------------------|-------------------|
|                          | September 29,<br>2012  | October 1,<br>2011 |                   |                   |
|                          | (dollars in thousands) |                    |                   |                   |
| Net sales                | \$ 278,396             | \$ 277,819         | \$ 577            | 0.2 %             |
| Segment operating profit | 24,773                 | 21,955             | 2,818             | 12.8              |

Direct to Consumer segment net sales were higher by \$1 million in the nine months of 2012 compared to the same period of 2011 due to higher net sales related to our Internet operations. Comparable store sales were 1% higher in the nine months of 2012 compared to the same period of 2011.

Direct to Consumer segment operating profit was \$3 million higher in the nine months of 2012 compared to the same period of 2011 primarily due to price increases and lower media spending, partially offset by unfavorable product sales mix.

**International**

|                          | Nine Months Ended      |                    | Higher<br>(Lower) | Percent<br>Change |
|--------------------------|------------------------|--------------------|-------------------|-------------------|
|                          | September 29,<br>2012  | October 1,<br>2011 |                   |                   |
|                          | (dollars in thousands) |                    |                   |                   |
| Net sales                | \$ 364,792             | \$ 372,943         | \$ (8,151)        | (2.2) %           |
| Segment operating profit | 33,964                 | 43,275             | (9,311)           | (21.5)            |



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Overall net sales in the International segment were lower by \$8 million, or 2%, in the nine months of 2012 compared to the same period of 2011 primarily due to an unfavorable impact of foreign exchange rates. Excluding the unfavorable impact of foreign exchange rates, International segment net sales were higher by 3%. Excluding the impact of foreign currency, net sales were impacted by the following:

Higher net sales in our activewear category in Australia primarily resulting from a benefit from the acquisition of the assets of the TNF Group Unit Trust from TNF Group Pty Ltd, as trustee, and of Player Sportswear Unit Trust from Player Sportswear Pty Ltd, as trustee (collectively TNF ) in April 2011.

Higher net sales in Latin America primarily due to space gains and higher unit sales volume in our retail casualwear category in Brazil and price increases in our intimate apparel category in Argentina.

Lower net sales in Asia primarily resulting from a one-time termination fee of \$5 million that we received in the first quarter of 2011 related to a royalty license agreement.

International segment operating profit was lower by \$9 million in the nine months of 2012 compared to the same period of 2011. In addition to increased cotton costs and other inflation, the lower operating profit was attributable to a one-time termination fee of \$5 million that we received in 2011 related to a royalty license agreement and an unfavorable impact related to foreign currency exchange rates. These higher costs were partially offset by lower media spending and price increases.

### ***General Corporate Expenses***

General corporate expenses were higher in the nine months of 2012 compared to the same period of 2011 primarily due to costs related to supply chain actions and higher compensation-related expenses, such as long-term incentive compensation costs and pension expense, partially offset by higher foreign exchange transactions gains.

### **Liquidity and Capital Resources**

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

Our primary sources of liquidity are cash generated by operations and availability under the \$600 million revolving credit facility (the Revolving Loan Facility ) under the senior secured credit facility that we entered into in 2006 and amended and restated in December 2009 (the 2009 Senior Secured Credit Facility ), the accounts receivable securitization facility that we entered into in November 2007 (the Accounts Receivable Securitization Facility ) and our international loan facilities. At September 29, 2012, we had \$589 million of borrowing availability under our Revolving Loan Facility (after taking into account outstanding letters of credit), \$87 million of borrowing availability under our international loan facilities, \$182 million in cash and cash equivalents, and no borrowing availability under our Accounts Receivable Securitization Facility. We currently believe that our existing cash balances and cash generated by operations, together with our available credit capacity, will enable us to comply with the terms of our indebtedness and meet foreseeable liquidity requirements.

The following have impacted or are expected to impact liquidity:

we have principal and interest obligations under our debt;

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

we may selectively pursue strategic acquisitions;

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we may increase or decrease the portion of the current-year income of our foreign subsidiaries that we remit to the United States, which could significantly impact our effective income tax rate; and

our board of directors has authorized the repurchase of up to 10 million shares of our stock in the open market over the next few years (2.8 million of which we have repurchased as of September 29, 2012 at a cost of \$75 million).

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We expect to be able to manage our working capital levels and capital expenditure amounts to maintain sufficient levels of liquidity. Although we may choose to pursue strategic acquisitions or repurchase our stock in the open market, during 2012 and 2013 we intend to utilize cash flow primarily for the reduction of long-term debt.

During the nine months of 2012 we have incurred approximately \$19 million of charges in 2012 for supply chain actions primarily associated with the imagewear restructuring. Offsetting these charges are efficiency savings from our supply chain optimization initiatives of approximately \$31 million we realized during the nine months of 2012. We expect to realize approximately \$40 million of efficiency savings for the full year in 2012.

***Inflation and Changing Prices***

The economic environment in which we are operating continues to be uncertain and volatile, which could have unanticipated adverse effects on our business during the remainder of 2012 and beyond. For example, our results in the nine months of 2012 were significantly impacted by a sustained increase in various input costs, such as cotton and oil-related materials, utilities, freight and wages. However, with the recent decline in cotton prices, the most significant contributor to our cost inflation is now behind us. Based on current market conditions, we expect the impact of cost inflation to be approximately \$250 million in 2012. Cost inflation impacted our results in the nine months of 2012 by approximately \$270 million. The year to date cost inflation will be offset by a reduction in input costs in the fourth quarter of 2012 as compared to the fourth quarter of 2011, primarily due to lower cotton costs.

***Cash Requirements for Our Business***

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

There have been no significant changes in the cash requirements for our business from those described in our Annual Report on Form 10-K for the year ended December 31, 2011.

***Sources and Uses of Our Cash***

The information presented below regarding the sources and uses of our cash flows for the nine months ended September 29, 2012 and October 1, 2011 was derived from our consolidated financial statements.

|  | <b>Nine Months Ended</b>      |                            |
|--|-------------------------------|----------------------------|
|  | <b>September 29,<br/>2012</b> | <b>October 1,<br/>2011</b> |
|  | <b>(dollars in thousands)</b> |                            |
| Operating activities   | \$ 309,405                    | \$ (26,874)                |
| Investing activities   | (16,454)                      | (65,239)                   |
| Financing activities   | (146,189)                     | 97,492                     |
| Effect of changes in foreign currency exchange rates on cash | 162                           | (1,053)                    |
| Increase in cash and cash equivalents                        | 146,924                       | 4,326                      |
| Cash and cash equivalents at beginning of year               | 35,345                        | 43,671                     |
| Cash and cash equivalents at end of period                   | \$ 182,269                    | \$ 47,997                  |

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### *Operating Activities*

Net cash provided by operating activities was \$309 million in the nine months of 2012 compared to net cash used in operating activities of \$27 million in the same period of 2011. The higher net cash from operating activities is primarily attributable to improved working capital resulting from a reduction in inventory levels caused by declining cotton costs and unit levels.

### *Investing Activities*

Net cash used in investing activities was \$16 million in the nine months of 2012 compared to \$65 million in the same period of 2011. The lower net cash used in investing activities was primarily the result of lower net capital expenditures of \$27 million and net cash proceeds of \$13 million from the sale of the European imagewear business in 2012. In addition, we used cash of \$9 million in 2011 related to the acquisition of TNF in April 2011.

### *Financing Activities*

Net cash used in financing activities was \$146 million in the nine months of 2012 compared to net cash provided by financing activities of \$97 million in 2011. The lower net cash from financing activities was primarily the result of redeeming our Floating Rate Senior Notes in the amount of \$148 million in July 2012 and lower net borrowings on our Accounts Receivable Securitization Facility and Revolving Loan Facility.

### ***Financing Arrangements***

During 2012, the following changes have been made to our financing arrangements:

In March 2012, we amended the Accounts Receivable Securitization Facility. This amendment decreased certain usage fee rates and extended the termination date to March 2013.

In July 2012, we redeemed approximately \$148 million of the Floating Rate Senior Notes at 100% of the principal amount thereof and redeemed the remaining balance of \$145 million in October 2012.

In July 2012, we amended the Revolving Loan Facility to reduce the interest rate by 100 basis points and extend the maturity date to September 2016 with the provision that it will be extended to July 2017 if we redeem or refinance our 8% Senior Notes prior to September 2016.

As of September 29, 2012, we were in compliance with all financial covenants under our credit facilities. We expect to maintain compliance with our covenants for the foreseeable future, however economic conditions or the occurrence of events discussed under *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2011 or other SEC filings could cause noncompliance.

There have been no other significant changes in the financing arrangements from those described in our Annual Report on Form 10-K for the year ended December 31, 2011.

### ***Off-Balance Sheet Arrangements***

We do not have any off-balance sheet arrangements within the meaning of Item 303(a)(4) of SEC Regulation S-K.

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

We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial condition in conformity with accounting principles generally accepted in the United States. We apply these accounting policies in a consistent manner. Our significant accounting policies are





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discussed in Note 2, titled Summary of Significant Accounting Policies, to our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

The application of critical accounting policies requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. These estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. We evaluate these estimates and assumptions on an ongoing basis and may retain outside consultants to assist in our evaluation. If actual results ultimately differ from previous estimates, the revisions are included in results of operations in the period in which the actual amounts become known. The critical accounting policies that involve the most significant management judgments and estimates used in preparation of our financial statements, or are the most sensitive to change from outside factors, are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no material changes in these policies during the quarter ended September 29, 2012.

### **Recently Issued Accounting Pronouncements**

#### *Disclosures About Offsetting Assets and Liabilities*

In December 2011, the FASB issued new accounting rules related to new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new rules are effective for us in the first quarter of 2015 with retrospective application required. We do not expect the adoption of the new accounting rules to have a material effect on our financial condition, results of operations or cash flows.

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

There have been no significant changes in our market risk exposures from those described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

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

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

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**PART II**

**Item 1.     *Legal Proceedings***

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

**Item 1A.   *Risk Factors***

No updates to report.

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

None.

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

None.

**Item 4.     *Mine Safety Disclosures***

Not applicable.

**Item 5.     *Other Information***

None.

**Item 6.     *Exhibits***

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

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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/ Richard D. Moss  
Richard D. Moss  
Chief Financial Officer  
(Duly authorized officer and principal financial officer)

Date: October 24, 2012

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

| <b>Exhibit</b> |   |
|----------------|---|
| <b>Number</b>  | <b>Description</b>  |
| 3.1            | Articles of Amendment and Restatement of Hanesbrands Inc. (incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).               |
| 3.2            | Articles Supplementary (Junior Participating Preferred Stock, Series A) (incorporated by reference from Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006). |
| 3.3            | Amended and Restated Bylaws of Hanesbrands Inc. (incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2008).                         |
| 31.1           | Certification of Richard A. Noll, Chief Executive Officer.  |
| 31.2           | Certification of Richard D. Moss, Chief Financial Officer.  |
| 32.1           | Section 1350 Certification of Richard A. Noll, Chief Executive Officer.   |
| 32.2           | Section 1350 Certification of Richard D. Moss, Chief Financial Officer.   |
| 101.INS XBRL   | Instance Document   |
| 101.SCH XBRL   | Taxonomy Extension Schema Document  |
| 101.CAL XBRL   | Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB XBRL   | Taxonomy Extension Label Linkbase Document  |
| 101.PRE XBRL   | Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF XBRL   | Taxonomy Extension Definition Linkbase Document   |