Hanesbrands Inc.
Form 10-Q
April 25, 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 March 31, 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)

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

(336) 519-8080

(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 x 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 x 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	x	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 x

As of April 20, 2012, there were 97,558,571 shares of the registrant s common stock outstanding.

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Trademarks, Trade Names and Service Marks

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

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as may, believe, will, expect, project, estimate, intend, anticipa continue or similar expressions. In particular, statements under the headings Outlook for 2012 and Other Business and Industry Trends and other information appearing under Management s Discussion and Analysis of Financial Condition and Results of Operations include forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements.

Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis. 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.

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

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

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PART I

Item 1. ***Financial Statements***

HANESBRANDS INC.

Condensed Consolidated Statements of Income (Loss)

(in thousands, except per share amounts)

(unaudited)

	Quarter Ended	
	March 31, 2012	April 2, 2011
Net sales	$ 1,008,334	$ 1,036,410
Cost of sales	753,971	681,885
Gross profit	254,363	354,525
Selling, general and administrative expenses	248,285	252,682
Operating profit	6,078	101,843
Other expenses	645	601
Interest expense, net	36,998	41,105
Income (loss) before income tax expense (benefit)	(31,565)	60,137
Income tax expense (benefit)	(4,735)	12,028
Net income (loss)	$ (26,830)	$ 48,109
Earnings (loss) per share:		
Basic	$ (0.27)	$ 0.49
Diluted	$ (0.27)	$ 0.49
Weighted average shares outstanding:		
Basic	98,533	97,194
Diluted	98,533	98,589

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(unaudited)

	Quarter Ended	
	March 31, 2012	April 2, 2011
Net income (loss)	$ (26,830)	$ 48,109
Other comprehensive income, net of tax of $1,722 and $1,666, respectively	4,924	6,372
Comprehensive income (loss)	$ (21,906)	$ 54,481

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

(unaudited)

	March 31, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 34,600	$ 35,345
Trade accounts receivable less allowances of $17,485 and $17,418, respectively	524,745	470,713
Inventories	1,619,242	1,607,555
Deferred tax assets	153,893	154,667
Other current assets	55,074	62,511
Total current assets	2,387,554	2,330,791
Property, net	623,872	635,406
Trademarks and other identifiable intangibles, net	167,133	169,675
Goodwill	433,473	433,396
Deferred tax assets	396,065	394,220
Other noncurrent assets	68,115	71,181
Total assets	$ 4,076,212	$ 4,034,669
Liabilities and Stockholders Equity		
Accounts payable	$ 401,476	$ 451,525
Accrued liabilities	269,039	252,186
Notes payable	41,648	63,075
Accounts Receivable Securitization Facility	163,370	166,933
Total current liabilities	875,533	933,719
Long-term debt	1,935,777	1,807,777
Pension and postretirement benefits	488,886	485,688
Other noncurrent liabilities	118,271	126,424
Total liabilities	3,418,467	3,353,608
Stockholders equity:		
Preferred stock (50,000,000 authorized shares; $.01 par value)		
Issued and outstanding None		
Common stock (500,000,000 authorized shares; $.01 par value)		
Issued and outstanding 97,558,571 and 97,517,325, respectively	976	975
Additional paid-in capital	267,540	266,551
Retained earnings	719,956	746,786
Accumulated other comprehensive loss	(330,727)	(333,251)
Total stockholders equity	657,745	681,061
Total liabilities and stockholders equity	$ 4,076,212	$ 4,034,669

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Quarter Ended March 31, 2012	Quarter Ended April 2, 2011
Operating activities:		
Net income (loss)	$ (26,830)	$ 48,109
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	19,474	18,068
Amortization of intangibles	3,856	3,619
Amortization of debt issuance costs	2,476	2,649
Amortization of loss on interest rate hedge	1,114	3,302
Stock compensation expense	1,772	2,548
Deferred taxes and other	(1,448)	2,314
Changes in assets and liabilities:		
Accounts receivable	(51,829)	(42,160)
Inventories	(8,647)	(215,004)
Other assets	5,012	(2,413)
Accounts payable	(49,645)	58,602
Accrued liabilities and other	10,580	19,331
Net cash used in operating activities	(94,115)	(101,035)
Investing activities:		
Purchases of property, plant and equipment	(9,174)	(25,411)
Proceeds from sales of assets	158	12,081
Net cash used in investing activities	(9,016)	(13,330)
Financing activities:		
Borrowings on notes payable	20,671	222,149
Repayments on notes payable	(42,217)	(243,518)
Borrowings on Accounts Receivable Securitization Facility	56,802	94,677
Repayments on Accounts Receivable Securitization Facility	(60,365)	(42,341)
Borrowings on Revolving Loan Facility	804,000	1,023,000
Repayments on Revolving Loan Facility	(676,000)	(918,000)
Payments to amend credit facilities	(225)	(3,569)
Proceeds from stock options exercised	323	2,425
Other	(845)	162
Net cash provided by financing activities	102,144	134,985
Effect of changes in foreign exchange rates on cash	242	513
Increase (decrease) in cash and cash equivalents	(745)	21,133
Cash and cash equivalents at beginning of year	35,345	43,671

Cash and cash equivalents at end of period	$ 34,600	$ 64,804

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements

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

(unaudited)

(1) Basis of Presentation

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

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

(2) Recent Accounting Pronouncements

Fair Value 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.

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.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

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) Earnings Per Share

Basic earnings per share (EPS) was computed by dividing net income (loss) by the number of weighted average shares of common stock outstanding during the quarters ended March 31, 2012 and April 2, 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 ended March 31, 2012 and April 2, 2011 is as follows:

	Quarter Ended	
	March 31, 2012	**April 2, 2011**
Basic weighted average shares outstanding	98,533	97,194
Effect of potentially dilutive securities:		
Stock options		1,051
Restricted stock units		344
Diluted weighted average shares outstanding	98,533	98,589

For the quarters ended March 31, 2012 and April 2, 2011, options to purchase 5,297 and 225 shares of common stock and 691 and 0 restricted stock units were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive. Because the Company reported a net loss for the quarter ended March 31, 2012, the restricted stock units and stock options excluded from the computation of diluted loss per share consisted of all outstanding restricted stock units and stock options, as their effect would have been anti-dilutive.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

(4) Inventories

Inventories consisted of the following:

	March 31, 2012	December 31, 2011
Raw materials	$ 231,803	$ 231,781
Work in process	128,579	129,827
Finished goods	1,258,860	1,245,947
	$ 1,619,242	$ 1,607,555

(5) Debt

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

	Interest Rate as of March 31, 2012	Principal Amount		
		March 31, 2012	December 31, 2011	Maturity Date
Revolving Loan Facility	3.62%	$ 142,500	$ 14,500	December 2015
6.375% Senior Notes	6.38%	1,000,000	1,000,000	December 2020
8% Senior Notes	8.00%	500,000	500,000	December 2016
Floating Rate Senior Notes	4.15%	293,277	293,277	December 2014
Accounts Receivable Securitization Facility	1.29%	163,370	166,933	March 2013
		2,099,147	1,974,710	
Less current maturities		163,370	166,933	
		$ 1,935,777	$ 1,807,777	

As of March 31, 2012, the Company had $142,500 outstanding under the $600,000 revolving credit facility (the Revolving Loan Facility) under the senior secured credit facility that it entered into in 2006 and amended and restated in December 2009 (as amended and restated, the 2009 Senior Secured Credit Facility), $11,465 of standby and trade letters of credit issued and outstanding under this facility and $446,035 of borrowing availability.

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 15, 2013. The Company incurred $225 in debt amendment fees in connection with the amendment, which will be amortized over the term of the facility.

As of March 31, 2012, the Company was in compliance with all financial covenants under its credit facilities.

(6) 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.

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

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.

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 March 31, 2012, the U.S. dollar equivalent of commitments to purchase and sell foreign currencies in the Company s foreign currency mark to market hedge derivative portfolio was $6,700 and $45,649, respectively, using the exchange rate at the reporting date.

Cash Flow Hedges

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

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

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.

Cash Flow Hedges Foreign Currency Derivatives

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

Historically, the principal currencies hedged by the Company include the Euro, Mexican peso, Canadian dollar and Japanese yen. Forward exchange contracts mature on the anticipated cash requirement date of the hedged transaction, generally within one year. As of March 31, 2012, the U.S. dollar equivalent of commitments to sell foreign currencies in the Company s foreign currency cash flow hedge derivative portfolio was $45,378, using the exchange rate at the reporting date.

Cash Flow Hedges Commodity Derivatives

Cotton is the primary raw material used to manufacture many of the Company s products and is purchased at market prices. The Company is able to lock in the cost of cotton reflected in the price it pays for yarn from its primary yarn suppliers in an attempt to protect its business from the volatility of the market price of cotton. In addition, from time to time, the Company uses commodity financial instruments to hedge the price of cotton, for which there is a high correlation between the hedged item and the hedge instrument. Gains and losses on these contracts are intended to offset losses and gains on the hedged transactions in an effort to reduce the earnings volatility resulting from fluctuating commodity prices. 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 March 31, 2012 and December 31, 2011.

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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 March 31, 2012	Fair Value December 31, 2011
Derivative assets hedges			
Foreign exchange contracts	Other current assets	$ 1,525	$ 3,205
Total derivative assets hedges		1,525	3,205
Derivative assets non-hedges			
Foreign exchange contracts	Other current assets	653	455
Total derivative assets		$ 2,178	$ 3,660
Derivative liabilities hedges			
Foreign exchange contracts	Accrued liabilities	(504)	(205)
Total derivative liabilities hedges		(504)	(205)
Derivative liabilities non-hedges			
Foreign exchange contracts	Accrued liabilities	(228)	(388)
Total derivative liabilities		$ (732)	$ (593)
Net derivative asset		$ 1,446	$ 3,067

Net Derivative Gain or Loss

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

	Amount of Loss Recognized in Accumulated Other Comprehensive Loss (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)

	Quarter Ended		Portion)	Quarter Ended	
	March 31, 2012	April 2, 2011		March 31, 2012	April 2, 2011
Interest rate contracts	$	$ (3)	Interest expense, net	$ (1,114)	$ (3,389)
Foreign exchange contracts	(1,366)	(2,154)	Cost of sales	75	(658)
Total	$ (1,366)	$ (2,157)		$ (1,039)	$ (4,047)

The Company expects to reclassify into earnings during the next 12 months a net loss from Accumulated Other Comprehensive Loss of approximately $4,196.

The changes in fair value of derivatives excluded from the Company s effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in the Selling, general and administrative expenses line in the Condensed Consolidated Statements of Income (Loss).

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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 recognized gains related to ineffectiveness of hedging relationships in the quarter ended March 31, 2012 for foreign exchange contracts of $80. The Company recognized losses related to ineffectiveness of hedging relationships in the quarter ended April 2, 2011 for foreign exchange contracts of $3.

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

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Loss Recognized in Income Quarter Ended March 31, 2012	Amount of Loss Recognized in Income Quarter Ended April 2, 2011
Foreign exchange contracts	Selling, general and administrative expenses	$ (2,607)	$ (1,672)
Total		$ (2,607)	$ (1,672)

(7) 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 March 31, 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 March 31, 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 March 31, 2012. As of March 31, 2012, the Company did not have any non-financial assets or liabilities that are required to be measured at fair value on a recurring or non-recurring basis.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

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

	Assets (Liabilities) at Fair Value as of March 31, 2012		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign exchange derivative contracts	$	$ 2,178	$
Foreign exchange derivative contracts		(732)	
Total	$	$ 1,446	$

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

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 March 31, 2012 and December 31, 2011. The fair value of debt was $2,188,106 and $2,030,240 as of March 31, 2012 and December 31, 2011 and had a carrying value of $2,099,147 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 March 31, 2012 and December 31, 2011, primarily due to the short-term nature of these instruments.

(8) Income Taxes

The Company s effective income tax rate was 15% and 20% for the quarters ended March 31, 2012 and April 2, 2011, respectively. The lower effective income tax rate for the quarter ended March 31, 2012 compared to the quarter ended April 2, 2011 is primarily attributable to a higher proportion of earnings attributed to foreign subsidiaries, which are taxed at rates lower than the U.S. statutory rate, in the quarter ended March 31, 2012 than in the quarter ended April 2, 2011.

(9) 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.

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

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.

The types of products and services from which each reportable segment derives its revenues are as follows:

Innerwear sells basic branded products that are replenishment in nature under the product categories of women s intimate apparel, men s underwear, kids underwear, socks and hosiery.

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 which sell products from the Company s portfolio of leading brands. The Company s Internet operations are supported by its catalogs.

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

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

	Quarter Ended	
	March 31, 2012	**April 2, 2011**
Net sales:		
Innerwear	$ 509,038	$ 502,683
Outerwear	294,194	323,926
Direct to Consumer	84,713	82,798
International	120,389	127,003
Total net sales	$ 1,008,334	$ 1,036,410

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Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

	Quarter Ended	
	March 31, 2012	April 2, 2011
Segment operating profit (loss):		
Innerwear	$ 51,642	$ 74,765
Outerwear	(23,900)	25,260
Direct to Consumer	1,082	327
International	3,182	20,346

Total segment operati