

MusclePharm Corp
Form 10-Q
November 14, 2017

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

FORM 10-Q

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

For the quarterly period ended: September 30, 2017

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: 000-53166

MusclePharm Corporation
(Exact name of registrant as specified in its charter)

Nevada 77-0664193
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

4400 Vanowen St. 91505
Burbank, CA
(Address of principal executive offices) (Zip code)

(303) 396-6100
(Registrant's telephone number, including area code)

4721 Ironton Street, Building A
Denver, Colorado 80238

(Former name, former address and former fiscal year, if changed since last report)

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 past 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

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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 (§232.405 of this chapter) 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 definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of the registrant’s common stock outstanding as of November 1, 2017: 14,650,554, excluding 875,621 shares of common stock held in treasury.

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Forward-Looking Statements

Except as otherwise indicated herein, the terms “Company,” “we,” “our” and “us” refer to MusclePharm Corporation and its subsidiaries. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, including our future profits, financing sources and our ability to satisfy our liabilities, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Item 1A, “Risk Factors” in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 15, 2017, as amended on May 1, 2017. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

MusclePharm Corporation

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 30, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Current assets:		
Cash	\$4,878	\$4,943
Accounts receivable, net of allowance for doubtful accounts of \$998 and \$462, respectively	13,087	13,353
Inventory	6,274	8,568
Prepaid giveaways	132	205
Prepaid expenses and other current assets	1,902	1,725
Total current assets	26,273	28,794
Property and equipment, net	2,226	3,243
Intangible assets, net	1,397	1,638
Other assets	222	421
TOTAL ASSETS	\$30,118	\$34,096
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$9,397	\$9,625
Accrued liabilities	8,526	9,051
Accrued restructuring charges, current	586	614
Obligation under secured borrowing arrangement	3,927	2,681
Convertible notes with a related party, net of discount	—	16,465
Total current liabilities	22,436	38,436
Accrued restructuring charges, long-term	134	208
Other long-term liabilities	1,081	332
Convertible notes with a related party, net of discount	17,925	—
TOTAL LIABILITIES	41,576	38,976
Commitments and Contingencies (Note 9)		
Stockholders' deficit:		
Common stock, par value of \$0.001 per share; 100,000,000 shares authorized; 15,526,175 and 14,987,230 shares issued as of September 30, 2017 and December 31, 2016, respectively; 14,650,554 and 14,111,609 shares outstanding as of September 30, 2017 and December 31, 2016, respectively	14	14
Additional paid-in capital	157,989	156,301

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Treasury stock, at cost; 875,621 shares	(10,039)	(10,039)
Accumulated other comprehensive loss	(2)	(162)
Accumulated deficit	(159,420)	(150,994)
TOTAL STOCKHOLDERS' DEFICIT	(11,458)	(4,880)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$30,118	\$34,096

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

MusclePharm Corporation
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

Three Months Ended
September 30,

2017 2016

Revenue, net	\$24,396	\$30,694
Cost of revenue (1)	16,359	20,497
Gross profit	8,037	10,197

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Significant fluctuations and volatility in the price of various input costs, such as cotton and oil-related materials, utilities, freight and wages, may have a material adverse effect on our business, results of operations, financial condition and cash flows.

The economic environment in which we are operating continues to be uncertain and volatile, which could have unanticipated adverse effects on our business during 2011 and beyond. We are seeing a sustained increase in various input costs, such as cotton and oil-related materials, utilities, freight and wages. Rising demand for cotton resulting from the economic recovery, weather-related supply disruptions, significant declines in U.S. inventory and a sharp rise in the futures market for cotton caused cotton prices to surge upward during 2010 and early 2011. Inflation can have a long-term impact on us because increasing costs of materials and labor may impact our ability to maintain satisfactory margins. For example, the cost of the materials that are used in our manufacturing process, such as oil-related commodity prices and other raw materials, such as dyes and chemicals, and other costs, such as fuel, energy and utility costs, can fluctuate as a result of inflation and other factors. Similarly, a significant portion of our products are manufactured in other countries and declines in the value of the U.S. dollar may result in higher manufacturing costs. Increases in inflation may not be matched by rises in income, which also could have a negative impact on spending.

Although we have sold our yarn operations and nearly 40% of our business, such as bras, sheer hosiery and portions of our activewear categories, is not cotton-based, we are still exposed to fluctuations in the cost of cotton. During 2010, cotton prices hit their highest levels in 140 years. Increases in the cost of cotton can result in higher costs in the price we pay for yarn from our large-scale yarn suppliers. Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by, among other things, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. We are able to lock in the cost of cotton that is reflected in the price we pay for yarn from our primary yarn suppliers in an attempt to protect our business from the volatility of the market price of cotton. However, our business can be affected by dramatic movements in cotton prices. Although the cost of cotton used in goods manufactured by us has historically represented only 6% of our cost of sales, it has risen to around 10% primarily as a result of the cost of inflation. Costs incurred for materials and labor are capitalized into inventory and impact our results as the inventory is sold. After taking into consideration the cotton costs currently in our finished goods inventory and cotton prices we have locked in through October, we expect an average for cotton of at least \$1.00 per pound in 2011 for purchases of cotton used in goods manufactured by us, which would have a negative impact ranging from \$100 to \$125 million when compared to 2010. The first and second quarters of 2011 should reflect an average cost of 83 cents per pound, the third quarter of 2011 should reflect an average cost of 89 cents per pound and the fourth quarter is not locked in at this time. These estimates do not include the cotton impact on the cost of sourced goods.

We are not always successful in our efforts to protect our business from the volatility of the market price of cotton, and our business can be adversely affected by dramatic movements in cotton prices. For example, we estimate that a change of \$0.01 per pound in cotton prices at current levels of production would affect our annual cost of sales by \$4 million related to finished goods manufactured internally in our manufacturing facilities and \$1 million related to finished goods sourced from third parties. The ultimate effect of this change on our earnings cannot be quantified, as the effect of movements in cotton prices on industry selling prices are uncertain, but any dramatic increase in the price of cotton would have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, oil-related commodity prices and the costs of other raw materials used in our products, such as dyes and chemicals, and other costs, such as fuel, energy and utility costs, may fluctuate due to a number of factors outside our control, including government policy and regulation and weather conditions. For example, we estimate that a change of \$10.00 per barrel in the price of oil would affect our freight costs by approximately \$5 million, at current levels of usage.

In response to the cost increases described above, particularly for cotton, energy and labor, we expect to take price increases as warranted by cost inflation, including multiple increases already put in place through late summer of 2011. The timing and frequency of price increases will vary by product category, channel of trade, and country, with some increases as frequently as quarterly. The magnitude of price increases will also vary by product category. If, however, we incur increased costs for materials, including cotton, and labor that we are unable to recoup through price increases or improved efficiencies, or if consumer spending declines, our business, results of operations, financial condition and cash flows may be adversely affected.

The loss of one or more of our suppliers of finished goods or raw materials may interrupt our supplies and materially harm our business.

We purchase all of the raw materials used in our products and approximately 37% of the apparel designed by us from a limited number of third-party suppliers and manufacturers. Our ability to meet our customers' needs depends on our ability to maintain an uninterrupted supply of raw materials and finished products from our third-party

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suppliers and manufacturers. Our business, financial condition or results of operations could be adversely affected if any of our principal third-party suppliers or manufacturers experience financial difficulties that they are not able to overcome resulting from worldwide economic conditions, production problems, difficulties in sourcing raw materials, lack of capacity or transportation disruptions, or if for these or other reasons they raise the prices of the raw materials or finished products we purchase from them. The magnitude of this risk depends upon the timing of any interruptions, the materials or products that the third-party manufacturers provide and the volume of production.

Our dependence on third parties for raw materials and finished products subjects us to the risk of supplier failure and customer dissatisfaction with the quality of our products. Quality failures by our third-party manufacturers or changes in their financial or business condition that affect their production could disrupt our ability to supply quality products to our customers and thereby materially harm our business.

If we fail to manage our inventory effectively, we may be required to establish additional inventory reserves or we may not carry enough inventory to meet customer demands, causing us to suffer lower margins or losses.

We are faced with the constant challenge of balancing our inventory with our ability to meet marketplace needs. We continually monitor our inventory levels to best balance current supply and demand with potential future demand that typically surges when consumers no longer postpone purchases in our product categories and we are continuing to implement strategies such as supplier-managed inventory. Inventory reserves can result from the complexity of our supply chain, a long manufacturing process and the seasonal nature of certain products. Increases in inventory levels may also be needed to service our business as we continue to optimize our supply chain to further enhance efficiency, improve working capital and asset turns and reduce costs. As a result, we could be subject to high levels of obsolescence and excess stock. Based on discussions with our customers and internally generated projections, we produce, purchase and/or store raw material and finished goods inventory to meet our expected demand for delivery. However, we sell a large number of our products to a small number of customers, and these customers generally are not required by contract to purchase our goods. If, after producing and storing inventory in anticipation of deliveries, demand is lower than expected, we may have to hold inventory for extended periods or sell excess inventory at reduced prices in some cases below our cost. There are inherent uncertainties related to the recoverability of inventory, and it is possible that market factors and other conditions underlying the valuation of inventory may change in the future and result in further reserve requirements. Excess inventory charges can reduce gross margins or result in operating losses, lowered plant and equipment utilization and lowered fixed operating cost absorption, all of which could have a material adverse effect on our business, results of operations, financial condition or cash flows.

Conversely, we also are exposed to lost business opportunities if we underestimate market demand and produce too little inventory for any particular period. Because sales of our products are generally not made under contract, if we do not carry enough inventory to satisfy our customers' demands for our products within an acceptable time frame, they may seek to fulfill their demands from one or several of our competitors and may reduce the amount of business they do with us. Any such action could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

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, consumers' uncertainty about financial condition, the availability of consumer credit, currency exchange rates, taxation, electricity power rates, gasoline price, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside our control. During the past several years, various retailers, including some of our largest

customers, have experienced significant difficulties, including restructurings, bankruptcies and liquidations and the inability of retailers to overcome these difficulties may increase due to worldwide economic conditions. This could adversely affect us because our customers generally pay us after goods are delivered. Adverse changes in a customer's financial position could cause us to limit or discontinue business with that customer, require us to assume more credit risk

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relating to that customer's future purchases or limit our ability to collect accounts receivable relating to previous purchases by that customer. Our customers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. Any of these occurrences could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our product costs may also increase, and these increases may not be offset by comparable rises in the income of consumers of our products. These consumers may choose to purchase fewer of our products or lower-priced products of our competitors in response to higher prices for our products, or may choose not to purchase our products at prices that reflect our price increases that become effective from time to time. If any of these events occur, or if unfavorable economic conditions continue to challenge the consumer environment, our business, results of operations, financial condition and cash flows could be adversely affected.

In addition, economic conditions, including decreased access to credit, may result in financial difficulties leading to restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers of raw materials and finished goods, logistics and other service providers and financial institutions which are counterparties to our credit facilities and derivatives transactions. In addition, the inability of these third parties to overcome these difficulties may increase. For example, several customers filed for bankruptcy in the last few years. If third parties on which we rely for raw materials, finished goods or services are unable to overcome financial difficulties and provide us with the materials and services we need, or if counterparties to our credit facilities or derivatives transactions do not perform their obligations, our business, results of operations, financial condition and cash flows could be adversely affected.

We may not be able to achieve the benefits we are seeking through optimizing our supply chain, which could impair our ability to further enhance efficiency, improve working capital and asset turns and reduce costs.

We have restructured our supply chain over the past four years to create more efficient production clusters that utilize fewer, larger facilities and to balance our production capability between the Western Hemisphere and Asia. We consolidated our distribution network by implementing new warehouse management systems and technology and adding new distribution centers and new third-party logistics providers to replace parts of our legacy distribution network. With our global supply chain infrastructure in place, we are focused long-term on optimizing our supply chain to further enhance efficiency, improve working capital and asset turns and reduce costs through several initiatives, such as supplier-managed inventory for raw materials and sourced goods ownership arrangements. If we are not able to optimize our supply chain, we may not be successful at improving working capital and asset turns and reducing costs.

Our business could be harmed if we are unable to deliver our products to the market due to problems with our distribution network.

We distribute our products from facilities that we operate as well as facilities that are operated by third-party logistics providers. These facilities include a combination of owned, leased and contracted distribution centers. We have reduced the number of distribution centers from the 48 that we maintained at the time we became an independent public company to 31 as of January 1, 2011. We consolidated our distribution network by implementing new warehouse management systems and technology and adding new distribution centers and new third-party logistics providers to replace parts of our legacy distribution network, including relocating distribution capacity to our West Coast distribution facility in California in order to expand capacity for goods we source from Asia. In 2009, we began shipping products from this new 1.3 million square foot distribution center in Perris, California. Because substantially all of our products are distributed from a relatively small number of locations, our operations could also be interrupted by extraordinary weather conditions or natural disasters, such as hurricanes, earthquakes, tsunamis, floods or fires near our distribution centers. We maintain business interruption insurance, but it may not adequately protect us from the adverse effects that could be caused by significant disruptions to our distribution network. In addition, our distribution network is dependent on the timely performance of services by third parties,

including the transportation of product to and from our distribution facilities. If we are unable to successfully operate our distribution network, our business, results of operations, financial condition and cash flows could be adversely affected.

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Due to the extensive nature of our foreign operations, fluctuations in foreign currency exchange rates could negatively impact our results of operations.

We sell a majority of our products in transactions denominated in U.S. dollars; however, we purchase many of our raw materials, pay a portion of our wages and make other payments in our supply chain in foreign currencies. As a result, when the U.S. dollar weakens against any of these currencies, our cost of sales could increase substantially. Outside the United States, we may pay for materials or finished products in U.S. dollars, and in some cases a strengthening of the U.S. dollar could effectively increase our costs where we use foreign currency to purchase the U.S. dollars we need to make such payments. We use foreign exchange forward and option contracts to hedge material exposure to adverse changes in foreign exchange rates. We are also exposed to gains and losses resulting from the effect that fluctuations in foreign currency exchange rates have on the reported results in our financial statements due to the translation of operating results and financial position of our foreign subsidiaries.

We rely on a relatively small number of customers for a significant portion of our sales, and the loss of or material reduction in sales to any of our top customers would have a material adverse effect on our business, results of operations, financial condition and cash flows.

In 2010, our top ten customers accounted for 65% of our net sales and our top customers, Wal-Mart and Target, accounted for 26% and 17% of our net sales, respectively. We expect that these customers will continue to represent a significant portion of our net sales in the future. In addition, our top customers are the largest market participants in our primary distribution channels across all of our product lines. Any loss of or material reduction in sales to any of our top ten customers, especially Wal-Mart and Target, would be difficult to recapture, and would have a material adverse effect on our business, results of operations, financial condition and cash flows.

Sales to our customers could be reduced if they devote less selling space to apparel products, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Over time, some of our customers that sell a variety of goods may devote less selling space to apparel products. If any of our customers devote less selling space to apparel products, our sales to those customers could be reduced even if we maintain our share of their apparel business. Any material reduction in sales resulting from reductions in apparel selling space could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We generally do not sell our products under contracts, and as a result, our customers are generally not contractually obligated to purchase our products, which causes some uncertainty as to future sales and inventory levels.

We generally do not enter into purchase agreements that obligate our customers to purchase our products and as a result, most of our sales are made on a purchase order basis. If any of our customers experiences a significant downturn in its business, or fails to remain committed to our products or brands, the customer is generally under no contractual obligation to purchase our products and, consequently, may reduce or discontinue purchases from us. In the past, such actions have resulted in a decrease in sales and an increase in our inventory and have had an adverse effect on our business, results of operations, financial condition and cash flows. If such actions occur again in the future, our business, results of operations and financial condition will likely be similarly affected.

Our existing customers may require products on an exclusive basis, forms of economic support and other changes that could be harmful to our business.

Customers increasingly may require us to provide them with some of our products on an exclusive basis which could cause an increase in the number of stock keeping units, or SKUs, we must carry and, consequently, increase our inventory levels and working capital requirements. Moreover, our customers may increasingly seek markdown allowances, incentives and other forms of economic support which reduce our gross margins and affect our profitability. Our financial performance is negatively affected by these pricing pressures when we are forced to reduce our prices without being able to correspondingly reduce our production costs.

Table of Contents***We operate in a highly competitive and rapidly evolving market, and our market share and results of operations could be adversely affected if we fail to compete effectively in the future.***

The basic apparel market is highly competitive and evolving rapidly. Competition is generally based upon brand name recognition, price, product quality, selection, service and purchasing convenience. Our businesses face competition today from other large corporations and foreign manufacturers. Fruit of the Loom, Inc., a subsidiary of Berkshire Hathaway Inc., competes with us across most of our segments through its own offerings and those of its Russell Corporation and Vanity Fair Intimates offerings. Other competitors in our Innerwear segment include Limited Brands, Inc.'s Victoria's Secret brand, Jockey International, Inc., Warnaco Group Inc. and Maidenform Brands, Inc. Other competitors in our Outerwear segment include various private label and controlled brands sold by many of our customers, Gildan Activewear, Inc. and Gildan Inc. We also compete with many small manufacturers across all of our business segments, including our International segment. Additionally, department stores and other retailers, including many of our customers, market and sell basic apparel products under private labels that compete directly with our brands. These customers may buy goods that are manufactured by others, which represents a lost business opportunity for us, or they may sell private label products manufactured by us, which have significantly lower gross margins than our branded products. Increased competition may result in a loss of or a reduction in shelf space and promotional support and reduced prices, in each case decreasing our cash flows, operating margins and profitability. Our ability to remain competitive in the areas of brand recognition, price, quality, research and product development, manufacturing and distribution will, in large part, determine our future success. If we fail to compete successfully, our market share, results of operations and financial condition will be materially and adversely affected.

Sales of and demand for our products may decrease if we fail to keep pace with evolving consumer preferences and trends, which could have an adverse effect on net sales and profitability.

Our success depends on our ability to anticipate and respond effectively to evolving consumer preferences and trends and to translate these preferences and trends into marketable product offerings. If we are unable to successfully anticipate, identify or react to changing styles or trends or misjudge the market for our products, our sales may be lower than expected and we may be faced with a significant amount of unsold finished goods inventory. In response, we may be forced to increase our marketing promotions, provide markdown allowances to our customers or liquidate excess merchandise, any of which could have a material adverse effect on our net sales and profitability. Our brand image may also suffer if customers believe that we are no longer able to offer innovative products, respond to consumer preferences or maintain the quality of our products.

Any inadequacy, interruption, integration failure or security failure with respect to our information technology could harm our ability to effectively operate our business.

Our ability to effectively manage and operate our business depends significantly on our information technology systems. As part of our efforts to consolidate our operations, we also expect to continue to incur costs associated with the integration of our information technology systems across our company over the next several years. This process involves the consolidation or possible replacement of technology platforms so that our business functions are served by fewer platforms, and has resulted in operational inefficiencies and in some cases increased our costs. We are subject to the risk that we will not be able to absorb the level of systems change, commit the necessary resources or focus the management attention necessary for the implementation to succeed. Many key strategic initiatives of major business functions, such as our supply chain and our finance operations, depend on advanced capabilities enabled by the new systems and if we fail to properly execute or if we miss critical deadlines in the implementation of this initiative, we could experience serious disruption and harm to our business. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, difficulty in integrating new systems or systems of acquired businesses or a breach in security of these systems could adversely impact the operation of our business.

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If we experience a data security breach and confidential customer information is disclosed, we may be subject to penalties and experience negative publicity, which could affect our customer relationships and have a material adverse effect on our business.

We and our customers could suffer harm if customer information were accessed by third parties due to a security failure in our systems. The collection of data and processing of transactions through our direct to consumer operations require us to receive and store a large amount of personally identifiable data. This type of data is subject to legislation and regulation in various jurisdictions. Data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting state and federal legislative proposals addressing data privacy and security. If some of the current proposals are adopted, we may be subject to more extensive requirements to protect the customer information that we process in connection with the purchases of our products. We may become exposed to potential liabilities with respect to the data that we collect, manage and process, and may incur legal costs if our information security policies and procedures are not effective or if we are required to defend our methods of collection, processing and storage of personal data. Future investigations, lawsuits or adverse publicity relating to our methods of handling personal data could adversely affect our business, results of operations, financial condition and cash flows due to the costs and negative market reaction relating to such developments.

Our substantial indebtedness subjects us to various restrictions and could decrease our profitability and otherwise adversely affect our business.

We have a substantial amount of indebtedness. As described in Management's Discussion and Analysis Financial Condition and Results of Operations Liquidity and Capital Resources, our indebtedness includes the \$600 million revolving credit facility (the Revolving Loan Facility) under our senior secured credit facility that we entered into in 2006 and amended and restated in December 2009 (as amended and restated, the 2009 Senior Secured Credit Facility), our \$500 million Floating Rate Senior Notes due 2014 (the Floating Rate Senior Notes), our \$500 million 8.000% Senior Notes due 2016 (the 8% Senior Notes), our \$1 billion 6.375% Senior Notes due 2020 (the 6.375% Senior Notes) and the \$150 million accounts receivable securitization facility that we entered into in November 2007 (the Accounts Receivable Securitization Facility). The 2009 Senior Secured Credit Facility and the indentures governing the Floating Rate Senior Notes, the 8% Senior Notes and the 6.375% Senior Notes contain restrictions that affect, and in some cases significantly limit or prohibit, among other things, our ability to borrow funds, pay dividends or make other distributions, make investments, engage in transactions with affiliates, or create liens on our assets.

Our leverage also could put us at a competitive disadvantage compared to our competitors that are less leveraged. These competitors could have greater financial flexibility to pursue strategic acquisitions, secure additional financing for their operations by incurring additional debt, expend capital to expand their manufacturing and production operations to lower-cost areas and apply pricing pressure on us. In addition, because many of our customers rely on us to fulfill a substantial portion of their basic apparel demand, any concern these customers may have regarding our financial condition may cause them to reduce the amount of products they purchase from us. Our leverage could also impede our ability to withstand downturns in our industry or the economy.

If we are unable to maintain financial ratios associated with our indebtedness, such failure could cause the acceleration of the maturity of such indebtedness which would adversely affect our business.

Covenants in the 2009 Senior Secured Credit Facility and the Accounts Receivable Securitization Facility require us to maintain a minimum interest coverage ratio and a maximum total debt to EBITDA (earnings before income taxes, depreciation expense and amortization), or leverage ratio. Economic conditions could impact our ability to maintain the financial ratios contained in these agreements. If we fail to maintain these financial ratios, that failure could result in a default that accelerates the maturity of the indebtedness under such facilities, which could require that we repay such indebtedness in full, together with accrued and unpaid interest, unless we are able to negotiate new financial ratios or waivers of our current ratios with our lenders. Even if we are able to negotiate new financial ratios or waivers of our current financial ratios, we may be required to pay fees or make other concessions that may adversely impact our business. Any one of these

options could result in significantly higher interest expense in 2011 and beyond. For information regarding our compliance with these covenants, see Management's Discussion and Analysis of Financial Condition Results of Operations Liquidity and Capital Resources Trends and Uncertainties Affecting Liquidity.

Table of Contents***If we fail to meet our payment or other obligations, the lenders could foreclose on, and acquire control of, substantially all of our assets.***

The lenders under the 2009 Senior Secured Credit Facility have received a pledge of substantially all of our existing and future direct and indirect subsidiaries, with certain customary or agreed-upon exceptions for foreign subsidiaries and certain other subsidiaries. Additionally, these lenders generally have a lien on substantially all of our assets and the assets of our subsidiaries, with certain exceptions. The financial institutions that are party to the Accounts Receivable Securitization Facility have a lien on certain of our domestic accounts receivables. As a result of these pledges and liens, if we fail to meet our payment or other obligations under the 2009 Senior Secured Credit Facility or the Accounts Receivable Securitization Facility, the lenders under those facilities will be entitled to foreclose on substantially all of our assets and, at their option, liquidate these assets.

Our indebtedness restricts our ability to obtain additional capital in the future.

The restrictions contained in the 2009 Senior Secured Credit Facility and in the indentures governing the Floating Rate Senior Notes, the 8% Senior Notes and the 6.375% Senior Notes could limit our ability to obtain additional capital in the future to fund capital expenditures or acquisitions, meet our debt payment obligations and capital commitments, fund any operating losses or future development of our business affiliates, obtain lower borrowing costs that are available from secured lenders or engage in advantageous transactions that monetize our assets, or conduct other necessary or prudent corporate activities.

If we need to incur additional debt or issue equity in order to fund working capital and capital expenditures or to make acquisitions and other investments, debt or equity financing may not be available to us on acceptable terms or at all. If we are not able to obtain sufficient financing, we may be unable to maintain or expand our business. If we raise funds through the issuance of debt or equity, any debt securities or preferred stock issued will have rights, preferences and privileges senior to those of holders of our common stock in the event of a liquidation, and the terms of the debt securities may impose restrictions on our operations. If we raise funds through the issuance of equity, the issuance would dilute the ownership interest of our stockholders.

Market returns could have a negative impact on the return on plan assets for our pension and other postemployment plans, which may require significant funding.

The plan assets of our pension plans and other postemployment plans, which had increases in values of approximately 4% and 8% during 2010 and 2009, respectively, are invested in domestic and international equity and bond markets. We are unable to predict the variations in asset values or the severity or duration of any disruptions in the financial markets or adverse economic conditions in the United States, Europe and Asia. The funded status of these plans, and the related cost reflected in our financial statements, are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Under the Pension Protection Act of 2006 (the Pension Protection Act), continued losses of asset values may necessitate increased funding of the plans in the future to meet minimum federal government requirements. Downward pressure on the asset values of these plans may require us to fund obligations earlier than we had originally planned, which would have a negative impact on cash flows from operations.

Our balance sheet includes a significant amount of intangible assets and goodwill. A decline in the estimated fair value of an intangible asset or of a business unit could result in an asset impairment charge, which would be recorded as an operating expense in our Consolidated Statement of Income.

Under current accounting standards, we estimate the fair value of acquired assets, including intangible assets, and assumed liabilities arising from a business acquisition. The excess, if any, of the cost of the acquired business over the fair value of net tangible assets acquired is goodwill. The goodwill is then assigned to a business unit (reporting unit), after considering whether the acquired business will be operated as a separate business unit or integrated into an existing business unit.

As of January 1, 2011, we had approximately \$179 million of trademarks and other identifiable intangibles and

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\$430 million of goodwill on our balance sheet. Our trademarks are subject to amortization while goodwill is not required to be amortized under current accounting rules. The combined amounts represent 16% of our total assets.

Goodwill must be tested for impairment at least annually. No impairment was identified as a result of the testing conducted in 2010. The impairment test requires us to estimate the fair value of our reporting units, primarily using discounted cash flow methodologies based on projected revenues and cash flows that will be derived from a reporting unit. Intangible assets that are being amortized must be tested for impairment whenever events or circumstances indicate that their carrying value might not be recoverable.

The fair value of a reporting unit could decline if projected revenues or cash flows were to be lower in the future due to effects of the global economy or other causes. If the carrying value of intangible assets or of goodwill were to exceed its fair value, the asset would be written down to its fair value, with the impairment loss recognized as a noncash charge in the Consolidated Statement of Income. We have not had any impairment charges in the last three years. However, changes in the future outlook of a reporting unit could result in an impairment loss, which could have a material adverse effect on our results of operations and financial condition.

To service our debt obligations, we may need to increase the portion of the income of our foreign subsidiaries that is expected to be remitted to the United States, which could increase our income tax expense.

The amount of the income of our foreign subsidiaries that we expect to remit to the United States may significantly impact our U.S. federal income tax expense. We pay U.S. federal income taxes on that portion of the income of our foreign subsidiaries that is expected to be remitted to the United States and be taxable. In order to service our debt obligations, we may need to increase the portion of the income of our foreign subsidiaries that we expect to remit to the United States, which may significantly increase our income tax expense. Consequently, our strategic initiative to enhance our global supply chain by optimizing lower-cost manufacturing capacity and to support our commercial operations outside the United States may result in capital investments outside the United States that impact our income tax expense.

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could increase our income taxes and decrease our net income.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes and, in the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, the resolution of issues arising from tax audits with various tax authorities, changes in tax laws, adjustments to income taxes upon finalization of various tax returns and other factors. Our tax determinations are regularly subject to audit by tax authorities and developments in those audits could adversely affect our income tax provision. Although we believe that our tax estimates are reasonable, any significant increase in our future effective tax rates could adversely impact our net income for future periods.

Our balance sheet includes a significant amount of deferred tax assets. We must generate sufficient future taxable income to realize the deferred tax benefits.

As of January 1, 2011, we had approximately \$469 million of net deferred tax assets on our balance sheet which represents 12% of our total assets. Deferred tax assets relate to temporary differences (differences between the assets and liabilities in the consolidated financial statements and the assets and liabilities in the calculation of taxable income). The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the tax benefits associated with the deferred tax benefits will not be realized. If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowances against our deferred tax assets, which would cause an increase in our effective tax rate. A significant increase in our effective tax

rate could have a material adverse effect on our financial condition or results of operations.

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Compliance with environmental and other regulations could require significant expenditures.

We are subject to various federal, state, local and foreign laws and regulations that govern our activities, operations and products that may have adverse environmental, health and safety effects, including laws and regulations relating to generating emissions, water discharges, waste, product and packaging content and workplace safety. Noncompliance with these laws and regulations may result in substantial monetary penalties and criminal sanctions. Future events that could give rise to manufacturing interruptions or environmental remediation include changes in existing laws and regulations, the enactment of new laws and regulations, a release of hazardous substances on or from our properties or any associated offsite disposal location, or the discovery of contamination from current or prior activities at any of our properties. While we are not aware of any proposed regulations or remedial obligations that could trigger significant costs or capital expenditures in order to comply, any such regulations or obligations could adversely affect our business, results of operations, financial condition and cash flows.

International trade regulations may increase our costs or limit the amount of products that we can import from suppliers in a particular country, which could have an adverse effect on our business.

Because a significant amount of our manufacturing and production operations are located, or our products are sourced from, outside the United States, we are subject to international trade regulations. The international trade regulations to which we are subject or may become subject include tariffs, safeguards or quotas. These regulations could limit the countries in which we produce or from which we source our products or significantly increase the cost of operating in or obtaining materials originating from certain countries. Restrictions imposed by international trade regulations can have a particular impact on our business when, after we have moved our operations to a particular location, new unfavorable regulations are enacted in that area or favorable regulations currently in effect are changed. The countries in which our products are manufactured or into which or from they are imported may from time to time impose additional new regulations, or modify existing regulations, including:

- additional duties, taxes, tariffs and other charges on imports, including retaliatory duties or other trade sanctions, which may or may not be based on WTO rules, and which would increase the cost of products produced in such countries;

- limitations on the quantity of goods which may be imported into the United States from a particular country, including the imposition of further safeguard mechanisms by the U.S. government or governments in other jurisdictions, limiting our ability to import goods from particular countries, such as China;

- changes in the classification and/or valuation of products that could result in higher duty rates than we have historically paid;

- modification of the trading status of certain countries;

- requirements as to where products are manufactured;

- creation of export licensing requirements, imposition of restrictions on export quantities or specification of minimum export pricing; or

- creation of other restrictions on imports.

Adverse international trade regulations, including those listed above, would have a material adverse effect on our business, results of operations, financial condition and cash flows.

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We had approximately 55,500 employees worldwide as of January 1, 2011, and our business operations and financial performance could be adversely affected by changes in our relationship with our employees or changes to U.S. or foreign employment regulations.

We had approximately 55,500 employees worldwide as of January 1, 2011. This means we have a significant exposure to changes in domestic and foreign laws governing our relationships with our employees, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll taxes, which likely would have a direct impact on our operating costs. Approximately 47,100 of those employees were outside of the United States. A significant increase in minimum wage or overtime rates in countries where we have employees could have a significant impact on our operating costs and may require that we relocate those operations or take other steps to mitigate such increases, all of which may cause us to incur additional costs, expend resources responding to such increases and lower our margins.

In addition, some of our employees are members of labor organizations or are covered by collective bargaining agreements. If there were a significant increase in the number of our employees who are members of labor organizations or become parties to collective bargaining agreements, we would become vulnerable to a strike, work stoppage or other labor action by these employees that could have an adverse effect on our business.

We may suffer negative publicity if we or our third-party manufacturers violate labor laws or engage in practices that are viewed as unethical or illegal, which could cause a loss of business.

We cannot fully control the business and labor practices of our third-party manufacturers, the majority of whom are located in Asia, Central America and the Caribbean Basin. If one of our own manufacturing operations or one of our third-party manufacturers violates or is accused of violating local or international labor laws or other applicable regulations, or engages in labor or other practices that would be viewed in our market in which our products are sold as unethical, we could suffer negative publicity, which could tarnish our brands' image or result in a loss of sales. In addition, if such negative publicity affected one of our customers, it could result in a loss of business for us.

The success of our business is tied to the strength and reputation of our brands, including brands that we license to other parties. If other parties take actions that weaken, harm the reputation of or cause confusion with our brands, our business, and consequently our sales, results of operations and cash flow may be adversely affected.

We license some of our important trademarks to third parties. For example, we license *Champion* to third parties for athletic-oriented accessories. Although we make concerted efforts to protect our brands through quality control mechanisms and contractual obligations imposed on our licensees, there is a risk that some licensees may not be in full compliance with those mechanisms and obligations. In that event, or if a licensee engages in behavior with respect to the licensed marks that would cause us reputational harm, we could experience a significant downturn in that brand's business, adversely affecting our sales and results of operations. Similarly, any misuse of the *Wonderbra* or *Playtex* brands by Sun Capital could result in negative publicity and a loss of sales for our products under these brands, any of which may have a material adverse effect on our business, results of operations, financial condition or cash flows.

We design, manufacture, source and sell products under trademarks that are licensed from third parties. If any licensor takes actions related to their trademarks that would cause their brands or our company reputational harm, our business may be adversely affected.

We design, manufacture, source and sell a number of our products under trademarks that are licensed from third parties such as our *Polo Ralph Lauren* men's underwear. Because we do not control the brands licensed to us, our licensors could make changes to their brands or business models that could result in a significant downturn in a brand's business, adversely affecting our sales and results of operations. If any licensor engages in behavior with respect to the licensed marks that would cause us reputational harm, or if any of the brands licensed to us violates the trademark rights of another or are deemed to be invalid or unenforceable, we could experience a significant downturn in that brand's business, adversely affecting our

sales and results of operations, and we may be required to expend significant amounts on public relations, advertising and, possibly, legal fees.

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We are prohibited from selling our Wonderbra and Playtex intimate apparel products in the EU, as well as certain other countries in Europe and South Africa, and therefore are unable to take advantage of business opportunities that may arise in such countries.

Sun Capital has an exclusive, perpetual, royalty-free license to manufacture, sell and distribute apparel products under the *Wonderbra* and *Playtex* trademarks in the member states of the EU, as well as Russia, South Africa, Switzerland and certain other nations in Europe. Due to the exclusive license, we are not permitted to sell *Wonderbra* and *Playtex* branded products in these nations and Sun Capital is not permitted to sell *Wonderbra* and *Playtex* branded products outside of these nations. Consequently, we will not be able to take advantage of business opportunities that may arise relating to the sale of *Wonderbra* and *Playtex* products in these nations. For more information on these sales restrictions see Business Intellectual Property. ***If we are unable to protect our intellectual property rights, our business may be adversely affected.***

Our trademarks and copyrights are important to our marketing efforts and have substantial value. We aggressively protect these trademarks and copyrights from infringement and dilution through appropriate measures, including court actions and administrative proceedings. We are susceptible to others imitating our products and infringing our intellectual property rights. Infringement or counterfeiting of our products could diminish the value of our brands or otherwise adversely affect our business. Actions we have taken to establish and protect our intellectual property rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to invalidate our trademarks or block sales of our products as a violation of the trademarks and intellectual property rights of others. In addition, unilateral actions in the United States or other countries, such as changes to or the repeal of laws recognizing trademark or other intellectual property rights, could have an impact on our ability to enforce those rights.

The value of our intellectual property could diminish if others assert rights in, or ownership of, our trademarks and other intellectual property rights. We may be unable to successfully resolve these types of conflicts to our satisfaction. In some cases, there may be trademark owners who have prior rights to our trademarks because the laws of certain foreign countries may not protect intellectual property rights to the same extent as do the laws of the United States. In other cases, there may be holders who have prior rights to similar trademarks. We are from time to time involved in opposition and cancellation proceedings with respect to some items of our intellectual property.

Our business depends on our senior management team and other key personnel.

Our success depends upon the continued contributions of our senior management team and other key personnel, some of whom have unique talents and experience and would be difficult to replace. The loss or interruption of the services of a member of our senior management team or other key personnel could have material adverse effect on our business during the transitional period that would be required for a successor to assume the responsibilities of the position. Our future success will also depend on our ability to attract and retain key managers, sales people and others. We may not be able to attract or retain these employees, which could adversely affect our business.

Businesses that we may acquire may fail to perform to expectations, and we may be unable to successfully integrate acquired businesses with our existing business.

From time to time, we may evaluate potential acquisition opportunities to support and strengthen our business. We may not be able to realize all or a substantial portion of the anticipated benefits of acquisitions that we may consummate. Newly acquired businesses may not achieve expected results of operations, including expected levels of revenues, and may require unanticipated costs and expenditures. Acquired businesses may also subject us to liabilities that we were unable to discover in the course of our due diligence, and our rights to indemnification from the sellers of such businesses, even if obtained, may not be sufficient to offset the relevant liabilities. In addition, the integration of newly acquired businesses may be expensive and time-consuming and may not be entirely successful. Integration of the acquired businesses may also place additional pressures on our systems of internal control over financial reporting. If we are unable to successfully integrate newly acquired businesses or if acquired businesses fail to produce targeted results, it could have an adverse effect on our results of operations or financial condition.

Table of Contents***If the IRS determines that our spin off from Sara Lee does not qualify as a tax-free distribution or a tax-free reorganization, we may be subject to substantial liability.***

Sara Lee has received a private letter ruling from the Internal Revenue Service, or the IRS, to the effect that, among other things, the spin off qualifies as a tax-free distribution for U.S. federal income tax purposes under Section 355 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, and is part of a tax-free reorganization under Section 368(a)(1)(D) of the Internal Revenue Code, and the transfer of assets and the assumption by us of liabilities in connection with the spin off will not result in the recognition of any gain or loss for U.S. federal income tax purposes to Sara Lee.

Although the private letter ruling relating to the qualification of the spin off under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code generally is binding on the IRS, the continuing validity of the ruling is subject to the accuracy of factual representations and assumptions made in connection with obtaining such private letter ruling. Also, as part of the IRS's general policy with respect to rulings on spin off transactions under Section 355 of the Internal Revenue Code, the private letter ruling obtained by Sara Lee is based upon representations by Sara Lee that certain conditions which are necessary to obtain tax-free treatment under Section 355 and Section 368(a)(1)(D) of the Internal Revenue Code have been satisfied, rather than a determination by the IRS that these conditions have been satisfied. Any inaccuracy in these representations could invalidate the ruling.

If the spin off does not qualify for tax-free treatment for U.S. federal income tax purposes, then, in general, Sara Lee would be subject to tax as if it has sold the common stock of our company in a taxable sale for its fair market value. Sara Lee's stockholders would be subject to tax as if they had received a taxable distribution equal to the fair market value of our common stock that was distributed to them, taxed as a dividend (without reduction for any portion of a Sara Lee's stockholder's basis in its shares of Sara Lee common stock) for U.S. federal income tax purposes and possibly for purposes of state and local tax law, to the extent of a Sara Lee's stockholder's pro rata share of Sara Lee's current and accumulated earnings and profits (including any arising from the taxable gain to Sara Lee with respect to the spin off). It is expected that the amount of any such taxes to Sara Lee's stockholders and to Sara Lee would be substantial.

Pursuant to a tax sharing agreement we entered into with Sara Lee in connection with the spin off, we agreed to indemnify Sara Lee and its affiliates for any liability for taxes of Sara Lee resulting from: (1) any action or failure to act by us or any of our affiliates following the completion of the spin off that would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction to Sara Lee and to Sara Lee's stockholders under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code, or (2) any action or failure to act by us or any of our affiliates following the completion of the spin off that would be inconsistent with or cause to be untrue any material, information, covenant or representation made in connection with the private letter ruling obtained by Sara Lee from the IRS relating to, among other things, the qualification of the spin off as a tax-free transaction described under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code. Our indemnification obligations to Sara Lee and its affiliates are not limited in amount or subject to any cap. We expect that the amount of any such taxes to Sara Lee would be substantial.

Anti-takeover provisions of our charter and bylaws, as well as Maryland law and our stockholder rights agreement, may reduce the likelihood of any potential change of control or unsolicited acquisition proposal that you might consider favorable.

Our charter permits our board of directors, without stockholder approval, to amend the charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have the authority to issue. In addition, our board of directors may classify or reclassify any unissued shares of common stock or preferred stock and may set the preferences, conversion or other rights, voting powers and other terms of the classified or reclassified shares. Our board of directors could establish a series of preferred stock that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. Under Maryland law, our board of directors also is permitted, without stockholder approval, to implement a classified board structure at any time.

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Our bylaws, which only can be amended by our board of directors, provide that nominations of persons for election to our board of directors and the proposal of business to be considered at a stockholders meeting may be made only in the notice of the meeting, by or at the direction of our board of directors or by a stockholder who is entitled to vote at the meeting and has complied with the advance notice procedures of our bylaws. Also, under Maryland law, business combinations between us and an interested stockholder or affiliate of an interested stockholder, including mergers, consolidations, share exchanges or, in circumstances specified in the statute, asset transfers or issuances or reclassifications of equity securities, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. An interested stockholder includes any person who beneficially owns 10% or more of the voting power of our shares or any affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our stock. A person is not an interested stockholder under the statute if our board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, our board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by our board. After the five-year prohibition, any business combination between us and an interested stockholder generally must be recommended by our board of directors and approved by two supermajority votes or our common stockholders must receive a minimum price, as defined under Maryland law, for their shares. The statute permits various exemptions from its provisions, including business combinations that are exempted by our board of directors prior to the time that the interested stockholder becomes an interested stockholder.

In addition, we have adopted a stockholder rights agreement which provides that in the event of an acquisition of or tender offer for 15% of our outstanding common stock, our stockholders, other than the acquirer, shall be granted rights to purchase our common stock at a certain price. The stockholder rights agreement could make it more difficult for a third-party to acquire our common stock without the approval of our board of directors.

These and other provisions of Maryland law or our charter and bylaws could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our common stock or otherwise be considered favorably by our stockholders.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 1C. *Executive Officers of the Registrant*

The chart below lists our executive officers and is followed by biographic information about them. No family relationship exists between any of our directors or executive officers.

<u>Name</u>	<u>Age</u>	<u>Positions</u>
Richard A. Noll	53	Chairman of the Board of Directors and Chief Executive Officer
Gerald W. Evans Jr.	51	Co-operating Officer, President International
William J. Nictakis	50	Co-operating Officer, President U.S.
Joia M. Johnson	51	Chief Legal Officer, General Counsel and Corporate Secretary
Kevin W. Oliver	53	Chief Human Resources Officer
E. Lee Wyatt Jr.	58	Chief Financial Officer

Richard A. Noll has served as Chairman of the Board of Directors since January 2009, as our Chief Executive Officer since April 2006 and as a director since our formation in September 2005. From December 2002 until September 2006, he also served as a Senior Vice President of Sara Lee. From July 2006 to April 2006, Mr. Noll served as President and Chief Operating Officer of Sara Lee Branded Apparel. Mr. Noll served as Chief Executive Officer of Sara Lee Bakery Group from July 2003 to July 2005 and as the Chief Operating Officer of Sara Lee Bakery Group from July 2002 to July 2003. From July 2001 to July 2002, Mr. Noll was Chief Executive Officer of

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Sara Lee Legwear, Sara Lee Direct and Sara Lee Mexico. Mr. Noll joined Sara Lee in 1992 and held a number of management positions with increasing responsibilities while employed by Sara Lee.

Gerald W. Evans Jr. has served as our Co-operating Officer, President International, since November 2010. From February 2009 until November 2010, he was our President, International Business and Global Supply Chain. From February 2008 until February 2009, he served as our President, Global Supply Chain and Asia Business Development. From September 2006 until February 2008, he served as Executive Vice President, Chief Supply Chain Officer. From July 2005 until September 2006, Mr. Evans served as a Vice President of Sara Lee and as Chief Supply Chain Officer of Sara Lee Branded Apparel. Mr. Evans served as President and Chief Executive Officer of Sara Lee Sportswear and Underwear from March 2003 until June 2005 and as President and Chief Executive Officer of Sara Lee Sportswear from March 1999 to February 2003.

William J. Nictakis has served as our Co-operating Officer, President U.S., since November 2010. From November 2007 until November 2010, he was our President, Chief Commercial Officer. From June 2003 until November 2007, Mr. Nictakis served as President of the Sara Lee Bakery Group. From May 1999 through June 2003, Mr. Nictakis was Vice President, Sales, of Frito-Lay, Inc., a subsidiary of PepsiCo, Inc. that manufactures, markets, sells and distributes branded snacks.

Joia M. Johnson has served as our Chief Legal Officer, General Counsel and Corporate Secretary since January 2007, a position previously known as Executive Vice President, General Counsel and Corporate Secretary. From May 2000 until January 2007, Ms. Johnson served as Executive Vice President, General Counsel and Secretary of RARE Hospitality International, Inc., an owner, operator and franchisor of nation chain restaurants. Ms. Johnson currently serves on the board of Crawford & Company, the world's largest independent provider of claims management solutions to the risk management and insurance industry.

Kevin W. Oliver has served as our Chief Human Resources Officer since September 2006, a position previously known as Executive Vice President, Human Resources. From January 2006 until September 2006, Mr. Oliver served as a Vice President of Sara Lee and as Senior Vice President, Human Resources of Sara Lee Branded Apparel. From February 2005 to December 2005, Mr. Oliver served as Senior Vice President, Human Resources for Sara Lee Food and Beverage and from August 2001 to January 2005 as Vice President, Human Resources for the Sara Lee Bakery Group.

E. Lee Wyatt Jr. has served as our Chief Financial Officer since September 2006, a position previously known as Executive Vice President, Chief Financial Officer. From September 2005 until September 2006, Mr. Wyatt served as a Vice President of Sara Lee and as Chief Financial Officer of Sara Lee Branded Apparel. Prior to joining Sara Lee, Mr. Wyatt was Executive Vice President, Chief Financial Officer and Treasurer of Sonic Automotive, Inc. from April 2003 to September 2005, and Vice President of Administration and Chief Financial Officer of Sealy Corporation from September 1998 to February 2003.

Item 2. Properties

We own and lease properties supporting our administrative, manufacturing, distribution and direct outlet activities. We own our approximately 470,000 square-foot headquarters located in Winston-Salem, North Carolina, which houses our various sales, marketing and corporate business functions. Research and development as well as certain product-design functions also are located in Winston-Salem, while other design functions are located in New York City and Lenexa, Kansas. Our products are manufactured through a combination of facilities we own and operate and facilities owned and operated by third-party contractors who perform some of the steps in the manufacturing process for us, such as cutting and/or sewing. We source the remainder of our finished goods from third-party manufacturers who supply us with finished products based on our designs.

As of January 1, 2011, we owned and leased properties in 23 countries, including 43 manufacturing facilities and 31 distribution centers, as well as office facilities. The leases for these properties expire between 2011 and 2022, with the exception of some seasonal warehouses that we lease on a month-by-month basis.

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As of January 1, 2011, we also operated 224 direct outlet stores in 40 states, most of which are leased under five-year, renewable lease agreements and several of which are leased under ten year agreements. We believe that our facilities, as well as equipment, are in good condition and meet our current business needs.

The following table summarizes our properties by country as of January 1, 2011:

<u>Properties by Country (1)</u>	<u>Owned Square Feet</u>	<u>Leased Square Feet</u>	<u>Total</u>
United States	3,171,576	7,666,324	10,837,900
Non-U.S. facilities:			
El Salvador	1,426,866	307,327	1,734,193
Honduras	356,279	916,520	1,272,799
China	1,070,912	47,734	1,118,646
Dominican Republic	835,240	178,033	1,013,273
Mexico	75,255	341,974	417,229
Canada	289,480	105,675	395,155
Vietnam	251,337	240,365	491,702
Costa Rica	168,282		168,282
Thailand	277,733	14,142	291,875
Belgium		165,398	165,398
Brazil		164,548	164,548
Argentina	125,289		125,289
10 other countries		77,428	77,428
Total non-U.S. facilities	4,876,673	2,559,144	7,435,817
Totals	8,048,249	10,225,468	18,273,717

(1) Excludes vacant land.

The following table summarizes the properties primarily used by our segments as of January 1, 2011:

<u>Properties by Segment (1)</u>	<u>Owned Square Feet</u>	<u>Leased Square Feet</u>	<u>Total</u>
Innerwear	3,319,699	4,019,584	7,339,283
Outerwear	2,294,310	2,655,156	4,949,466
Hosiery	303,445	39,000	342,445
Direct to Consumer		1,840,969	1,840,969
International	481,273	818,903	1,300,176
Totals	6,398,727	9,373,612	15,772,339

(1) Excludes vacant land, facilities under construction, facilities no longer in operation intended for disposition, sourcing offices not associated with a particular segment, and office buildings housing corporate functions.

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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 4. (Removed and Reserved)**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market for our Common Stock**

Our common stock currently is traded on the New York Stock Exchange, or the NYSE, under the symbol HBI. A when-issued trading market for our common stock on the NYSE began on August 16, 2006, and regular way trading of our common stock began on September 6, 2006. Prior to August 16, 2006, there was no public market for our common stock. Each share of our common stock has attached to it one preferred stock purchase right. These rights initially will be transferable with and only with the transfer of the underlying share of common stock. We have not made any unregistered sales of our equity securities.

The following table sets forth the high and low sales prices for our common stock for the indicated periods:

	High	Low
2009		
Quarter ended April 4, 2009	\$ 13.66	\$ 5.1
Quarter ended July 4, 2009	\$ 19.07	\$ 10.7
Quarter ended October 3, 2009	\$ 22.96	\$ 13.0
Quarter ended January 2, 2010	\$ 26.61	\$ 21.0
2010		
Quarter ended April 3, 2010	\$ 28.40	\$ 20.9
Quarter ended July 3, 2010	\$ 31.45	\$ 23.4
Quarter ended October 2, 2010	\$ 27.88	\$ 23.2
Quarter ended January 1, 2011	\$ 28.42	\$ 23.9

Holders of Record

On February 14, 2011, there were 40,861 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to determine the exact number of beneficial stockholders represented by these record holders, but we believe that there were approximately 73,300 beneficial owners of our common stock as of February 1, 2011.

Dividends

We currently do not pay regular dividends on our outstanding stock. The declaration of any future dividends and, if declared, the amount of any such dividends, will be subject to our actual future earnings, capital

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requirements, regulatory restrictions, debt covenants, other contractual restrictions and to the discretion of our board of directors. Our board of directors may take into account such matters as general business conditions, our financial condition and results of operations, our capital requirements, our prospects and such other factors as our board of directors may deem relevant.

Issuer Purchases of Equity Securities

There were no purchases by Hanesbrands during the quarter or year ended January 1, 2011 of equity securities that are registered under Section 12 of the Exchange Act.

Performance Graph

The following graph compares the cumulative total stockholder return on our common stock with the comparable cumulative return of the S&P MidCap 400 Index and the S&P 1500 Apparel, Accessories & Luxury Goods Index. The graph assumes that \$100 was invested in our common stock and each index on August 11, 2006, the effective date of the registration of our common stock under Section 12 of the Exchange Act, although a when-issued trading market for our common stock did not begin until August 2006, and regular way trading did not begin until September 6, 2006. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN

Table of Contents**Equity Compensation Plan Information**

The following table provides information about our equity compensation plans as of January 1, 2011.

<u>Plan Category</u>	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance (1)
Equity compensation plans approved by security holders	7,751,336	\$ 22.34	3,945,48
Equity compensation plans not approved by security holders			
Total	7,751,336	\$ 22.34	3,945,48

(1) The amount appearing under Number of securities remaining available for future issuance under equity compensation plans includes 1,945,335 shares available under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 and 2,000,151 shares available under the Hanesbrands Inc. Employee Stock Purchase Plan of 2006.

Item 6. Selected Financial Data

The following table presents our selected historical financial data. The statement of income data for the years ended January 1, 2011, January 2, 2010 and January 3, 2009 and the balance sheet data as of January 2011 and January 2, 2010 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The statement of income data for the year ended December 29, 2007, the six-month period ended December 30, 2006 and the year ended July 1, 2006 and the balance sheet data as of January 3, 2009, December 29, 2007, December 30, 2006 and July 1, 2006 has been derived from our financial statements not included in this Annual Report on Form 10-K.

In October 2006, our Board of Directors approved a change in our fiscal year end from the Saturday closest to June 30 to the Saturday closest to December 31. As a result of this change, the table below includes presentation of the transition period beginning on July 2, 2006 and ending on December 30, 2006.

Our historical financial data for periods prior to our spin off from Sara Lee on September 5, 2006 is not necessarily indicative of our future performance or what our financial position and results of operations would have been if we had operated as a separate, stand alone entity during all of the periods shown. The data should be read in conjunction with our historical financial statements and Management's Discussion Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K.

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	Years Ended			Six Months		Year
	January 1, 2011	January 2, 2010	January 3, 2009	December 29, 2007	Ended December 30, 2006	Ended July 1, 2006
(amounts in thousands, except per share data)						
Statement of Income Data:						
Net sales	\$ 4,326,713	\$ 3,891,275	\$ 4,248,770	\$ 4,474,537	\$ 2,250,473	\$ 4,472,83
Cost of sales	2,911,944	2,626,001	2,871,420	3,033,627	1,530,119	2,987,50
Gross profit	1,414,769	1,265,274	1,377,350	1,440,910	720,354	1,485,33
Selling, general and administrative expenses	1,010,581	940,530	1,009,607	1,040,754	547,469	1,051,83
Gain on curtailment of postretirement benefits				(32,144)	(28,467)	
Restructuring		53,888	50,263	43,731	11,278	(10
Operating profit	404,188	270,856	317,480	388,569	190,074	433,60
Other expense (income)	20,221	49,301	(634)	5,235	7,401	
Interest expense, net	150,236	163,279	155,077	199,208	70,753	17,28
Income before income tax expense	233,731	58,276	163,037	184,126	111,920	416,32
Income tax expense	22,438	6,993	35,868	57,999	37,781	93,82
Net income	\$ 211,293	\$ 51,283	\$ 127,169	\$ 126,127	\$ 74,139	\$ 322,49
Earnings per share basic(1)	\$ 2.19	\$ 0.54	\$ 1.35	\$ 1.31	\$ 0.77	\$ 3.3
Earnings per share diluted(2)	\$ 2.16	\$ 0.54	\$ 1.34	\$ 1.30	\$ 0.77	\$ 3.3
Weighted average shares basic(1)	96,500	95,158	94,171	95,936	96,309	96,30
Weighted average shares diluted(2)	97,774	95,668	95,164	96,741	96,620	96,30
	January 1, 2011	January 2, 2010	January 3, 2009	December 29, 2007	December 30, 2006	July 1, 2006

(in thousands)

Balance Sheet**Data:**

Cash and cash equivalents	\$ 43,671	\$ 38,943	\$ 67,342	\$ 174,236	\$ 155,973	\$ 298,250
Total assets	3,790,002	3,326,564	3,534,049	3,439,483	3,435,620	4,903,880
Noncurrent liabilities:						
Long-term debt	1,990,735	1,727,547	2,130,907	2,315,250	2,484,000	
Other noncurrent liabilities	407,243	385,323	469,703	146,347	271,168	49,980
Total noncurrent liabilities	2,397,978	2,112,870	2,600,610	2,461,597	2,755,168	49,980
Total stockholders or parent companies equity	562,674	334,719	185,155	288,904	69,271	3,229,130

- (1) Prior to the spin off on September 5, 2006, the number of shares used to compute basic and diluted earnings per share is 96,306, which was the number of shares of our common stock outstanding on September 5, 2006.
- (2) Subsequent to the spin off on September 5, 2006, the number of shares used to compute diluted earnings per share is based on the number of shares of our common stock outstanding, plus the potential dilution that could occur if restricted stock units and options granted under our equity-based compensation arrangements were exercised or converted into common stock.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see Forward-Looking Statements and Risk Factors in this Annual Report on Form 10-K for a discussion of the uncertainties 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 Annual Report on Form 10-K. 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 listed under Risk Factors in this Annual Report on Form 10-K and included elsewhere in this Annual Report on Form 10-K.

MD&A is a supplement to our financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K, and is provided to enhance your understanding of our results of operations and financial condition. Our MD&A is organized as follows:

Overview. This section provides a general description of our company and operating segments, business and industry trends, our key business strategies and background information on other matters discussed in this MD&A.

Components of Net Sales and Expenses. This section provides an overview of the components of our net sales and expenses that are key to an understanding of our results of operations.

2010 Highlights. This section discusses some of the highlights of our performance and activities during 2010.

Consolidated Results of Operations and Operating Results by Business Segment. These sections provide our analysis and outlook for the significant line items on our statements of income, as well as other information that we deem meaningful to an understanding of our results of operations on both a consolidated basis and a business segment basis.

Liquidity and Capital Resources. This section provides an analysis of trends and uncertainties affecting liquidity, cash requirements for our business, sources and uses of our cash and our financing arrangements.

Critical Accounting Policies and Estimates. This section discusses the accounting policies that we consider important to the evaluation and reporting of our financial condition and results of operations and whose application requires significant judgments or a complex estimation process.

Recently Issued Accounting Pronouncements. This section provides a summary of the most recent authoritative accounting pronouncements that we will be required to adopt in a future period.

Overview

Our Company

We are a consumer goods company with a portfolio of leading apparel brands, including *Hanes, Champion, Playtex, Bali, L'eggs, Just My Size, barely there, Wonderbra, Stedman, Outer Banks, Zorba, Rinbros, Duofold* and *Gear for Sports*. We design, manufacture, source and sell a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, kids' underwear, casualwear, activewear, socks and hosiery. According to NPD, our brands held either the number one or number two U.S. market position by units sold in most product categories in which we compete, for the 12 month period ended December 31, 2010.

Our distribution channels include direct to consumer sales at our outlet stores, national chains and department stores and warehouse clubs, mass-merchandise outlets and international sales. During 2010, approximately 44% of our net sales were to mass merchants in the United States, 15% were to national chains and department stores in the United States, 12% were in our International segment, 9% were in our Direct to Consumer segment in the United States, and 20% were to other retail channels in the United States such as embellishers, specialty retailers, wholesale clubs, sporting goods stores and collegiate bookstores.

Table of Contents***Our Segments***

Our operations are managed and reported in five operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Hosiery, Direct to Consumer and International. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses but the segments share a common supply chain and media and marketing platforms. In October 2009, we completed the sale of our yarn operations and, as a result, we no longer have net sales in the Other segment, which was primarily comprised of sales of yarn to third parties.

Innerwear. The Innerwear segment focuses on core basic apparel, and consists of products such as women's intimate apparel, men's underwear, kids' underwear, and socks, marketed under well-known brands that are trusted by consumers. We are an intimate apparel category leader in the United States with our *Hanes*, *Playtex*, *Bali*, *barely there*, *Just My Size* and *Wonderbra* brands. We are also a leading manufacturer and marketer of men's underwear and kids' underwear under the *Hanes* and *Polo Ralph Lauren* brand names. During 2010, net sales from our Innerwear segment were \$2.0 billion, representing approximately 46% of total net sales.

Outerwear. We are a leader in the casualwear and activewear markets through our *Hanes*, *Champion*, *Just My Size*, *Duofold* and *Gear for Sports* brands, where we offer products such as T-shirts and fleece. Our casualwear lines offer a range of quality, comfortable clothing for men, women and children marketed under the *Hanes* and *Just My Size* brands. The *Just My Size* brand offers casual apparel designed exclusively to meet the needs of plus-size women. In 2009, we entered into a multi-year agreement to provide a women's casualwear program with our *Just My Size* brand at Wal-Mart stores. In addition to activewear for men and women, *Champion* provides uniforms for athletic programs and includes an apparel program, *C9 by Champion*, at Target stores. We also license our *Champion* name for collegiate apparel and footwear. We also supply our T-shirts, sport shirts and fleece products, including brands such as *Hanes*, *Champion*, *Outer Banks* and *Hanes Beefy-T*, to customers, primarily wholesalers, who then resell to screen printers and embellishers. On November 2010, we completed our acquisition of Gear for Sports, a leading seller of licensed logo apparel in collegiate bookstores and other channels, which significantly strengthens our strategy of creating stronger branded and defensible businesses in our Outerwear segment. The operating results of Gear for Sports are included in the Outerwear segment. During 2010, net sales from our Outerwear segment were \$1.3 billion, representing approximately 29% of total net sales.

Hosiery. We are the leading marketer of women's sheer hosiery in the United States. We compete in the hosiery market by striving to offer superior values and executing integrated marketing activities, as well as focusing on the style of our hosiery products. We market hosiery products under our *L'eggs*, *Hanes* and *Just My Size* brands. During 2010, net sales from our Hosiery segment were \$167 million, representing approximately 4% of total net sales. We expect the trend of declining hosiery sales to continue consistent with the overall decline in the industry and with shifts in consumer preferences.

Direct to Consumer. Our Direct to Consumer operations include our value-based (outlet) stores and Internet operations which sell products from our portfolio of leading brands. We sell our branded products directly to consumers through our outlet stores as well as our websites operating under the *Hanes*, *One Hanes Place*, *Just My Size* and *Champion* names. Our Internet operations are supported by our catalogs. As of January 1, 2011 and January 2, 2010, we had 224 and 228 outlet stores, respectively. During 2010, net sales from our Direct to Consumer segment were \$378 million, representing approximately 9% of total net sales.

International. International includes products that span across the Innerwear, Outerwear and Hosiery reportable segments and are primarily marketed under the *Hanes*, *Champion*, *Wonderbra*, *Playtex*, *Stedman*, *Zorba*, *Rinbros*, *Kendall*, *Sol y Oro*, *Bali* and *Ritmo* brands. During 2010, net sales from our International segment were \$509 million, representing approximately 12% of total net sales and included sales in Latin America, Asia, Canada, Europe and South America. Our largest international

markets are Canada, Japan, Mexico, Europe and Brazil, and we also have sales offices in India and China.

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Outlook for 2011

After a strong performance in 2010 in an uncertain and volatile economic environment, we expect continued double-digit growth in 2011 with projected net sales of approximately \$4.85 billion to \$5.0 billion compared to \$4.33 billion in 2010. The primary drivers of this growth are expected to be price increases, partially offset by demand elasticity, a full year of the Gear for Sports acquisition contributing approximately five points of growth, and net shelf-space gains and increases in consumer spending each contributing another one to two points of growth in net sales.

Because of expected systemic cost inflation in 2011 as described below, particularly for cotton, energy and labor, we expect to take price increases throughout the year as warranted by cost inflation, including multiple increases already put in place through late summer. The timing and frequency of price increases will vary by product category, channel of trade, and country, with some increases as frequently as quarterly. The magnitude of price increases also will vary by product category. Demand elasticity effects, which could be significant for higher double-digit price increases implemented later in 2011, should be manageable and will have a muted impact in 2011.

For the first three quarters of 2011, we believe we know the majority of our costs, with cotton prices locked in through October. Our current 2011 earnings expectations assume we will continue to realize efficiency savings from our supply chain optimization of approximately \$40 million and eliminate the majority of excess 2010 costs to service the strong sales growth of \$25 to \$30 million; continued investment in trade and media spending consistent with our historical rate of \$90 to \$100 million; stable interest expense; and a higher full-year tax rate that could range from a percentage in the teens to the low 20s.

As a result of the cost inflation and higher product pricing, we expect higher working capital, in particular higher accounts receivable and inventories, partially offset by higher inventory turns which will negatively impact our cash flow. 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.

Business and Industry Trends

Inflation and Changing Prices

The economic environment in which we are operating continues to be uncertain and volatile, which could have unanticipated adverse effects on our business during 2011 and beyond. We are seeing a sustained increase in various input costs, such as cotton and oil-related materials, utilities, freight and wages, which impacted our results in 2010 and will continue to do so throughout 2011. The estimated impact of cost inflation could be in the range of \$250 to \$300 million higher in 2011 over 2010. Rising demand for cotton resulting from the economic recovery, weather-related supply disruptions, significant declines in U.S. inventory and a sharp rise in the futures market for cotton caused cotton prices to surge upward during 2010 and early 2011. After taking into consideration the cotton costs currently in our finished goods inventory and cotton prices we have locked in through October, we expect an average for cotton of at least \$1.00 per pound in 2011 for purchases of cotton used in goods manufactured by us, which would have a negative impact of ranging from \$100 to \$125 million when compared to 2010. The first and second quarters of 2011 should reflect an average cost of 83 cents per pound, the third quarter of 2011 should reflect an average cost of 89 cents per pound and the fourth quarter is not locked in at this time. These estimates do not include the cotton impact on the cost of sourced goods.

Although we have sold our yarn operations and nearly 40% of our business, such as bras, sheer hosiery and portions of our activewear categories, is not cotton-based, we are still exposed to fluctuations in the cost of cotton. During 2010, cotton prices hit their highest levels in 140 years. Increases in the cost of cotton can result in higher costs in the price we pay for yarn from our large-scale yarn suppliers. Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by, among other factors, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. We are able to lock in the cost of cotton reflected in the price we pay for yarn from our primary yarn suppliers in an attempt to protect our business from the volatility of the market price of cotton. However, our business can be affected by dramatic movements in cotton prices.

Although the cost of cotton used in goods manufactured by us has historically represented only 6% of our cost of sales, it has risen to around 10%

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primarily as a result of cost inflation. Costs incurred for materials and labor are capitalized into inventory and may impact our results as the inventory is sold.

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

If we incur increased costs for materials, including cotton, and labor that we are unable to recoup through price increases or improved efficiencies, or if consumer spending declines, our business, results of operations, financial condition and cash flows may be adversely affected.

Given the systemic cost inflation that the apparel industry is currently experiencing, most apparel retailers and manufacturers have announced they will be implementing price increases in 2011 in order to maintain satisfactory margins. Higher raw material costs, including cotton, and higher labor costs overseas are the primary reasons that price increases are needed to manage the inflated costs.

Other Business and Industry Trends

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

Our top ten customers accounted for 65% of our net sales and our top customer, Wal-Mart, accounted for over \$1 billion of our sales in 2010. Our largest customers in 2010 were Wal-Mart, Target and Kohl's, which accounted for 26%, 17% and 6% of total sales, respectively. The growth in retailers can create pricing pressures as our customers grow larger and seek to have greater concessions in their purchase of our products, while they can be increasingly demanding that we provide them with some of our products on an exclusive basis. To counteract these effects, it has become increasingly important to leverage our national brands through investment in our largest and strongest brands as our customers strive to maximize their performance especially in today's challenging economic environment. In addition, during the past several years, various retailers, including some of our largest customers, have experienced significant difficulties, including restructurings, bankruptcies and liquidations, and the ability of retailers to overcome these difficulties may increase due to worldwide economic conditions. Brands are important in our core categories to drive traffic and project required quality and value.

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

Growth Platform

We have built a powerful three-plank growth platform designed to use big brands to increase sales domestically and internationally, use a low-cost worldwide supply chain to expand margins, and use strong cash flow to support multiple strategies to create value.

The first plank of our growth platform is the size and power of our brands. We have made significant investment in our consumer insights capability, innovative product development, and marketing. We have very large U.S. share positions, with the No. 1 share in all our innerwear categories and strong positions in outerwear categories, but we have ample opportunities to further build share. Internationally, our commercial markets include Mexico, Canada, Japan, India, Brazil and China, where a substantial amount of gross domestic product growth outside the United States will be concentrated over the next decade.

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The second plank of our growth platform is the low-cost global supply chain that we have just built. Our low-cost, high-scale supply chain spans both the Western and Eastern hemispheres and creates a competitive advantage for us around the globe. Our supply chain has generated significant cost savings, margin expansion and contributions to cash flow and will continue to do so as we further optimize our size, scale and production capability. To support our growth, we have increased our production capacity such as in our Nanjing textile facility, which we expect will ramp up to full capacity by the end of 2011.

The third plank of our growth platform is our ability to consistently generate strong cash flow. We have the potential to increase cash flow, and our flexible long-term capital structure allows us to use cash in executing multiple strategies for earnings growth, including debt reduction and selective tactical acquisitions.

Our Key Business Strategies

Sell more, spend less and generate cash are our broad strategies to build our brands, reduce our costs and generate cash.

Sell More

Through our sell more strategy, we seek to drive profitable growth by consistently offering consumer brands they love and trust and products with unsurpassed value. Key initiatives we are employing to implement this strategy include:

Build big, strong brands in big core categories with innovative key items. Our ability to react to changing customer needs and industry trends is key to our success. Our design, research and product development teams, in partnership with our marketing teams, drive our efforts to bring innovations to market. We seek to leverage our insights into consumer demand in the basic apparel industry to develop new products within our existing lines and to modify our existing core products in ways that make them more appealing, addressing changing customer needs and industry trends. We also support our key brands with targeted, effective advertising and marketing campaigns.

Foster strategic partnerships with key retailers via team selling. We foster relationships with key retailers by applying our extensive category and product knowledge, leveraging our use of multi-functional customer management teams and developing new customer-specific programs such as *C9 by Champion* for Target and our *Just My Size* program at Wal-Mart. Our goal is to strengthen and deepen our existing strategic relationships with retailers and develop new strategic relationships.

Use Kanban concepts to have the right products available in the right quantities at the right time. Through Kanban, a multi-initiative effort that determines production quantities, and in doing so, facilitates just-in-time production and ordering systems, we seek to ensure that products are available to meet customer demands while effectively managing inventory levels.

Spend Less

Through our spend less strategy, we seek to become an integrated organization that leverages its size and global reach to reduce costs, improve flexibility and provide a high level of service. Key initiatives we are employing to implement this strategy include:

Optimizing our global supply chain to improve our cost-competitiveness and operating flexibility. We have restructured our supply chain over the past four years to create more efficient production clusters that utilize fewer, larger facilities and to balance our production capability between the Western Hemisphere and Asia. With our global supply chain infrastructure in place, we are focused long-term on optimizing our supply chain to further enhance efficiency, improve working capital and asset turnover and reduce costs through several initiatives, such as supplier-managed inventory for raw materials and sourced goods ownership arrangements. We commenced production at our textile production plant in Nanjing, China, which is our first company-owned textile facility in Asia, in the fourth quarter of 2009 and we ramped up production in 2010 to support our growth, with the expectation of ramping up to full capacity by the end of 2011. The Nanjing facility, along with our other textile facilities and arrangements with outside contractors, enables us to expand and leverage our production scale as we balance our supply chain across

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hemispheres to support our production capacity. We consolidated our distribution network by implementing new warehouse management systems and technology and adding new distribution centers and new third-party logistics providers to replace parts of our legacy distribution network, including relocating distribution capacity to our West Coast distribution facility in California in order to expand capacity for goods we source from Asia.

Leverage our global purchasing and manufacturing scale. Historically, we have had a decentralized operating structure with many distinct operating units. We are in the process of consolidating purchasing, manufacturing and sourcing across all of our product categories in the United States. We believe that these initiatives will streamline our operations, improve our inventory management, reduce costs and standardize processes.

Generate Cash

Through our generate cash strategy, we seek to effectively generate and invest cash at or above our weighted average cost of capital to provide superior returns for both our equity and debt investors. Key initiatives we are employing to implement this strategy include:

Optimizing our capital structure to take advantage of our business model's strong and consistent cash flows. Maintaining appropriate debt leverage and utilizing excess cash to, for example, pay down debt, invest in our own stock and selectively pursue strategic acquisitions are keys to building a stronger business and generating additional value for investors. In November 2010, we completed a \$1.0 billion senior notes offering and debt refinancing that strengthened and added flexibility to our capital structure by fixing a significant percentage of our debt at favorable interest rates at longer maturities.

Continuing to improve turns for accounts receivables, inventory, accounts payable and fixed assets. Our ability to generate cash is enhanced through more efficient management of accounts receivables, inventory, accounts payable and fixed assets through several initiatives, such as supplier-managed inventory for raw materials, sourced goods ownership arrangements and other efforts.

Global Supply Chain

We have restructured our supply chain over the past four years to create more efficient production clusters that utilize fewer, larger facilities and to balance our production capability between the Western Hemisphere and Asia. We have closed plant locations, reduced our workforce and relocated some of our manufacturing capacity to lower cost locations in Asia, Central America and the Caribbean Basin. With our global supply chain infrastructure in place, we are focused long-term on optimizing our supply chain to further enhance efficiency, improve working capital and asset turns and reduce costs through several initiatives, such as supplier-managed inventory for raw materials and sourced goods ownership arrangements. We commenced production at our textile production plant in Nanjing, China, which is our first company-owned textile facility in Asia, in the fourth quarter of 2009 and we ramped up production in 2010 to support our growth, with the expectation of ramping up to full capacity by the end of 2011. The Nanjing facility, along with our other textile facilities and arrangements with outside contractors, enables us to expand and leverage our production scale as we balance our supply chain across hemispheres to support our production capacity. We consolidated our distribution network by implementing new warehouse management systems and technology and adding new distribution centers and new third-party logistics providers to replace parts of our legacy distribution network, including relocating distribution capacity to our West Coast distribution facility in California in order to expand capacity for goods we source from Asia.

Seasonality and Other Factors

Our operating results are subject to some variability due to seasonality and other factors. Generally, our diverse range of product offerings helps mitigate the impact of seasonal changes in demand for certain items. Sales are typically higher in the last two quarters (July to December) of each fiscal year. Socks, hosiery and fleece products generally have higher sales during this period as a result of cooler weather, back-to-school shopping and holidays. Sales levels in any period are also impacted by customers' decisions to increase or decrease their inventory levels in response to anticipated consumer demand. Our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice to us. Media,

advertising and promotion expenses may vary from

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period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions.

Although the majority of our products are replenishment in nature and tend to be purchased by consumers on a planned, rather than on an impulse, basis, our sales are impacted by discretionary spending by consumers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, currency exchange rates, taxation, electricity power rates, gasoline prices, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside our control. Consumers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. These consumers may choose to purchase fewer of our products or to purchase lower-priced products of our competitors in response to higher prices for our products, or may choose not to purchase our products at prices that reflect our price increases that become effective from time to time.

Components of Net Sales and Expenses***Net sales***

We generate net sales by selling basic apparel products such as T-shirts, bras, panties, men's underwear, kids' underwear, socks, hosiery, casualwear and activewear. Our net sales are recognized net of discounts, coupons, rebates, volume-based incentives and cooperative advertising costs. We recognize revenue when (i) there is persuasive evidence of an arrangement, (ii) the sales price is fixed or determinable, (iii) title and the risks of ownership have been transferred to the customer and (iv) collection of the receivable is reasonably assured, which occurs primarily upon shipment. Net sales include an estimate for returns and allowances based upon historical return experience. We also offer a variety of sales incentives to resellers and consumers that are recorded as reductions to net sales. Royalty income from license agreements with manufacturers of other consumer products that incorporate our brands is also included in net sales.

Cost of sales

Our cost of sales includes the cost of manufacturing finished goods, which consists of labor, raw materials such as cotton and petroleum-based products and overhead costs such as depreciation on owned facilities and equipment. Our cost of sales also includes finished goods sourced from third-party manufacturers that supply us with products based on our designs as well as charges for slow moving or obsolete inventories. Rebates, discounts and other cash consideration received from a vendor related to inventory purchases are reflected in cost of sales when the related inventory item is sold. Our costs of sales do not include shipping costs, comprised of payments to third party shippers, or handling costs, comprised of warehousing costs in our distribution facilities, and thus our gross margins may not be comparable to those of other entities that include such costs in cost of sales.

Selling, general and administrative expenses

Our selling, general and administrative expenses include selling, advertising, costs of shipping, handling and distribution to our customers, research and development, rent on leased facilities, depreciation on owned facilities and equipment and other general and administrative expenses. Selling, general and administrative expenses also include management payroll, benefits, travel, information systems, accounting, insurance and legal expenses.

Restructuring

We have from time to time closed facilities and reduced headcount, including in connection with previously announced restructuring and business transformation plans. We refer to these activities as restructuring actions. When we decide to close facilities or reduce headcount, we take estimated charges for such restructuring, including charges for exited non-cancelable leases and other contractual obligations, as well as severance and benefits. If the actual charge is different from the original estimate, an adjustment is recognized in the period such change in estimate is identified.

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Other expense (income)

Our other expense (income) include charges such as losses on early extinguishment of debt, costs to amend and restate our credit facilities, fees associated with sales of certain trade accounts receivable to financial institutions, and charges related to the termination of certain interest rate hedging arrangements.

Interest expense, net

Our interest expense is net of interest income. Interest income is the return we earned on our cash and cash equivalents. Our cash and cash equivalents are invested in highly liquid investments with original maturities of three months or less.

Income tax expense

Our effective income tax rate fluctuates from period to period and can be materially impacted by, among other things:

- changes in the mix of our earnings from the various jurisdictions in which we operate;
- the tax characteristics of our earnings;
- the timing and amount of earnings of foreign subsidiaries that we repatriate to the United States, which may increase our tax expense and taxes paid; and
- the timing and results of any reviews of our income tax filing positions in the jurisdictions in which we transact business.

Highlights from the year ended January 1, 2011

Total net sales in 2010 were \$4.33 billion, compared with \$3.89 billion in 2009, representing an 11% increase.

Operating profit was \$404 million in 2010 compared with \$271 million in 2009, representing a 49% increase. As a percent of sales, operating profit was 9.3% in 2010 compared to 7.0% in 2009.

Diluted earnings per share were \$2.16 in 2010, compared with \$0.54 in 2009.

Gross capital expenditures were \$106 million in 2010, compared to \$127 million in 2009. Proceeds from sales of assets were \$46 million in 2010 and \$38 million in 2009.

In November 2010, we completed the acquisition of GearCo, Inc., known as Gear for Sports, a leading seller of licensed logo apparel in collegiate bookstores. Gear for Sports, which sells embellished licensed apparel under several brand names, including our *Champion* label, had sales of approximately \$225 million and an operating profit margin of more than 11% of sales in its fiscal year ended in June 2010. The Gear for Sports acquisition supports our strategy of creating stronger branded and defensible businesses in our Outerwear segment, which has included building our *Champion* activewear brand and increasing sales of higher-margin graphic apparel. We have significant growth synergies in both the collegiate bookstore channel and our existing retail channels and opportunities to take advantage of our low-cost global supply chain. After giving effect to the acquisition, graphic apparel sales constitute approximately 20% to 25% of the Outerwear Segment net sales. The purchase price was \$55 million in cash for shareholders' equity plus payment at closing of approximately \$172 million of debt of the privately held company.

In November 2010, we completed a senior notes offering and debt refinancing that strengthened and added flexibility to our capital structure by fixing a significant percentage of our debt at favorable interest rates at longer maturities. The refinancing consisted of the sale of \$1.0 billion 6.375% Senior Notes with a 10-year maturity. The proceeds from the sale of the 6.375% Senior Notes were used to retire early the entire \$691 million outstanding under the \$750 million floating-rate term loan facility (the Term Loan Facility) under the 2009 Senior Secured Credit Facility and reduce the outstanding borrowings under the Revolving Loan Facility, and to pay fees and expenses related to the transaction.

Table of Contents**Gross Profit**

	Years Ended			Percent Change
	January 1, 2011	January 2, 2010	Higher (Lower)	
Gross profit	\$ 1,414,769	\$ 1,265,274	\$ 149,495	11.8

As a percent of net sales, our gross profit was 32.7% in 2010 compared to 32.5% in 2009, increasing as a result of the items described below. Our results in 2010 primarily benefited from higher sales volumes and savings from cost reduction initiatives and were negatively impacted by higher cotton costs and higher service costs.

Our gross profit was higher by \$149 million in 2010 compared to 2009 due primarily to higher sales volume of \$203 million, savings from our prior restructuring actions of \$29 million, vendor price reduction of \$27 million, lower start-up and shut-down costs of \$16 million associated with the consolidation and globalization of our supply chain, a \$10 million favorable impact related to foreign currency exchange rates and lower accelerated depreciation of \$5 million. The favorable impact of foreign currency exchange rates in our International segment was primarily due to the strengthening of the Canadian dollar, Japanese yen, Brazilian real and Mexican peso compared to the U.S. dollar, partially offset by the strengthening of the U.S. dollar compared to the Euro.

Our gross profit was negatively impacted by an unfavorable product sales mix of \$54 million, higher sales incentives of \$34 million, higher cotton costs of \$33 million, lower product pricing of \$12 million, primarily in the first half of 2010, higher other manufacturing costs of \$6 million and higher production costs of \$4 million. The higher production costs were primarily attributable to \$25 million of incremental costs to service higher demand, partially offset by lower energy and oil-related costs of \$21 million. Our 2010 sales incentives were higher due to higher sales volumes and, as a percentage of sales, sales incentives were flat compared to 2009.

We incurred one-time restructuring related write-offs of \$4 million in 2009 for stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate, which did not recur in 2010.

The cotton prices reflected in our results were 69 cents per pound in 2010 compared to 55 cents per pound in 2009. We continue to see higher prices for cotton and oil-related materials in the market.

Selling, General and Administrative Expenses

	Years Ended			Percent Change
	January 1, 2011	January 2, 2010	Higher (Lower)	
Selling, general and administrative expenses	\$ 1,010,581	\$ 940,530	\$ 70,051	7.4

Our selling, general and administrative expenses were \$70 million higher in 2010 compared to 2009. As a percent of net sales our selling, general and administrative expenses were 23.4% in 2010 compared to 24.2% in 2009.

Our non-media related MAP expenses and media related MAP expenses were higher by \$12 million and \$5 million, respectively, during 2010 compared to 2009 when we reduced spending due to the recession. MAP expenses may vary from period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions. For example, during the second quarter of 2010 we launched new television advertising featuring new *Hanes* men's underwear products *Comfort Flex* waistband and Lay Flat Collar T-shirts, we introduced new advertising supporting *Playtex 18 Hour* cooling products and we launched new advertising supporting the new *barely there* Smart sizes bra

sizing system.

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We also incurred higher distribution expenses of \$28 million, higher selling and other marketing expenses of \$17 million and higher consulting expenses of \$7 million. The higher distribution expenses were primarily due to higher sales volumes and \$10 million of incremental costs to service higher demand such as overtime and rework expenses in our distribution centers while the higher selling and other marketing expenses were primarily due to higher sales volumes. In addition, we recognized an \$8 million gain related to the sale of our yarn operations to Parkdale America, LLC (Parkdale America) in 2009 that did not recur in 2010.

We also incurred higher expenses of \$7 million in 2010 compared to 2009 as a result of opening new retail stores or expanding existing stores. We opened five retail stores during 2010.

These higher expenses were partially offset by lower pension expense of \$7 million, savings of \$4 million from our prior restructuring actions, lower accelerated depreciation of \$3 million and lower stock compensation and certain other benefit expenses of \$2 million in 2010 compared to 2009.

Changes due to foreign currency exchange rates, which are included in the impact of the changes discussed above, resulted in higher selling, general and administrative expenses of \$7 million in 2010 compared to 2009.

Restructuring

	Years Ended		Higher (Lower)	Percent Change
	January 1, 2011	January 2, 2010		
Restructuring	\$	\$ 53,888	\$(53,888)	(100.0)

During 2009, we incurred \$54 million in restructuring charges, which primarily related to employee termination and other benefits, charges related to contract obligations, other exit costs associated with facility closures approved during that period and fixed asset impairment charges that did not recur in 2010.

Operating Profit

	Years Ended		Higher (Lower)	Percent Change
	January 1, 2011	January 2, 2010		
Operating profit	\$ 404,188	\$ 270,856	\$ 133,332	49.2

Operating profit was higher in 2010 compared to 2009 as a result of higher gross profit of \$149 million and lower restructuring charges of \$54 million, partially offset by higher selling, general and administrative expenses of \$70 million. Changes in foreign currency exchange rates had a favorable impact on operating profit of \$3 million in 2010 compared to 2009.

Other Expenses

	Years Ended		Higher (Lower)	Percent Change
	January 1, 2011	January 2, 2010		
Other expenses	\$ 20,221	\$ 49,301	\$(29,080)	(59.0)

In November 2010, we completed the sale of our 6.375% Senior Notes. The proceeds from the sale of the 6.375% Senior Notes were used to retire early the entire \$691 million outstanding under the floating-rate Term Loan Facility and reduce the outstanding borrowings under the Revolving Loan Facility, and to pay fees and expenses related to the transaction. In connection with this transaction, we recognized a loss on

early extinguishment of debt of \$14 million related to unamortized debt issuance costs and the associated fees and expenses.

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In addition, during 2010 we wrote off unamortized debt issuance costs and incurred charges for funding fees associated with the sales of certain trade accounts receivable to financial institutions, which combined totaled \$6 million. The write-off related to unamortized debt issuance costs resulted from the repayment of \$57 million of principal under the 2009 Senior Secured Credit Facility and from a reduction in borrowing capacity available under the Accounts Receivable Securitization Facility from \$250 million to \$150 million that we effected in recognition of our lower trade accounts receivable balance resulting from the sales of certain trade accounts receivable to a financial institution outside the Accounts Receivable Securitization Facility.

During 2009, we recognized a loss on early extinguishment of debt of \$17 million related to unamortized debt issuance costs and fees paid in connection with the execution of the 2009 Senior Secured Credit Facility and the issuance of the 8% Senior Notes. As a result of the refinancing of our outstanding borrowings under the 2006 Senior Secured Credit Facility and repayment of the outstanding borrowings under our \$450 million second lien credit facility that we entered into in 2006 (the Second Lien Credit Facility), we recognized a loss of \$26 million in 2009 related to termination of certain interest rate hedging arrangements. In addition, in 2009 we incurred a \$2 million loss on early extinguishment of debt related to unamortized debt issuance costs resulting from the prepayment of \$140 million of principal under the 2006 Senior Secured Credit Facility and we incurred costs of \$4 million to amend the 2006 Senior Secured Credit Facility and the Accounts Receivable Securitization Facility.

Interest Expense, net

	Years Ended			
	January 1, 2011	January 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
Interest expense, net	\$ 150,236	\$ 163,279	\$ (13,043)	(8.0)

Interest expense, net was lower by \$13 million in 2010 compared to 2009. The lower interest expense was primarily attributable to lower outstanding debt balances that reduced interest expense by \$12 million. In addition, the refinancing of our debt structure in December 2009, which included the amendment and restatement of the 2006 Senior Secured Credit Facility into the 2009 Senior Secured Credit Facility, the issuance of the 8% Senior Notes and the settlement of certain outstanding interest rate hedging instruments, and the refinancing of our debt structure in November 2010, which included the sale of our 6.375% Senior Notes, combined with a lower London Interbank Offered Rate, or LIBOR, and federal funds rate, caused a net decrease in interest expense in 2010 compared to 2009 of \$1 million.

Our weighted average interest rate on our outstanding debt was 5.91% during 2010 compared to 6.86% in 2009.

Income Tax Expense

	Years Ended			
	January 1, 2011	January 2, 2010	Higher (Lower)	Percent Change
	(dollars in thousands)			
Income tax expense	\$ 22,438	\$ 6,993	\$ 15,445	220.9

Our effective income tax rate was 10% in 2010 compared to 12% in 2009. The effective income tax rate of 10% for 2010 was primarily attributable to a discrete, non-recurring income tax benefit of approximately \$20 million. The income tax benefit resulted from a change in estimate associated with the remeasurement of unrecognized tax benefit accruals and the determination that certain tax positions had been effectively settled following the finalization of tax reviews and audits for amounts that were less than originally anticipated.

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This non-recurring income tax benefit was partially offset by a lower proportion of our earnings attributed to foreign subsidiaries than in 2009 which are taxed at rates lower than the U.S. statutory rate.

Our strategic initiative to enhance our global supply chain by optimizing lower-cost manufacturing capacity and to support our commercial operations outside the United States resulted in capital investments outside the United States in 2009 and 2010 that impacted our effective tax rate.

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Net Income

	Years Ended			
	January	January	Higher	Percent
	1,	2,	(Lower)	Change
	2011	2010		
	(dollars in thousands)			
Net income	\$ 211,293	\$ 51,283	\$ 160,010	312.0

Net income for 2010 was higher than 2009 primarily due to higher operating profit of \$133 million, lower other expenses of \$29 million and lower interest expense of \$13 million, which was partially offset by higher income tax expense of \$15 million.

Table of Contents**Operating Results by Business Segment Year Ended January 1, 2011 (2010) Compared with Year Ended January 2, 2010 (2009)**

	Years Ended		Higher (Lower)	Percent Change
	January 1, 2011	January 2, 2010		
	(dollars in thousands)			
Net sales:				
Innerwear	\$ 2,012,922	\$ 1,833,616	\$ 179,306	9.8
Outerwear	1,259,935	1,051,735	208,200	19.8
Hosiery	166,780	185,710	(18,930)	(10.2)
Direct to Consumer	377,847	369,739	8,108	2.2
International	509,229	437,804	71,425	16.3
Other		12,671	(12,671)	(100.0)
Total net sales	\$ 4,326,713	\$ 3,891,275	\$ 435,438	11.2
Segment operating profit (loss):				
Innerwear	\$ 263,368	\$ 234,352	\$ 29,016	12.4
Outerwear	77,656	53,050	24,606	46.4
Hosiery	53,583	61,070	(7,487)	(12.3)
Direct to Consumer	25,880	37,178	(11,298)	(30.4)
International	59,368	44,688	14,680	32.8
Other		(2,164)	2,164	100.0
Total segment operating profit	479,855	428,174	51,681	12.1
Items not included in segment operating profit:				
General corporate expenses	(63,158)	(75,127)	(11,969)	(15.9)
Amortization of trademarks and other intangibles	(12,509)	(12,443)	66	0.5
Restructuring		(53,888)	(53,888)	(100.0)
Inventory write-off included in cost of sales		(4,135)	(4,135)	(100.0)
Accelerated depreciation included in cost of sales		(8,641)	(8,641)	(100.0)
Accelerated depreciation included in selling, general and administrative expenses		(3,084)	(3,084)	(100.0)
Total operating profit	404,188	270,856	133,332	49.2
Other expenses	(20,221)	(49,301)	(29,080)	(59.0)
Interest expense, net	(150,236)	(163,279)	(13,043)	(8.0)
Income before income tax expense	\$ 233,731	\$ 58,276	\$ 175,455	301.1

A significant portion of the selling, general and administrative expenses in each segment is an allocation of our consolidated selling, general and administrative expenses, however certain expenses that are specifically identifiable to a segment are charged directly to such segment. The allocation methodology for the consolidated selling, general and administrative expenses for 2010 is consistent with 2009. Our consolidated selling, general and administrative expenses before segment allocations were \$70 million high

in 2010 compared to 2009.

the trend toward casual dress reduced demand for sheer hosiery. Generally, we manage the Hosiery segment for cash, placing an emphasis on reducing our cost structure and managing cash efficiently.

in our

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the recessionary environment, and lower casualwear net sales (19%) in the retail channel. The lower casualwear net sales in both channels were partially offset by higher net sales (4%) of our *Champion* brand activewear. The results for the first half of 2009 were negatively impacted by losses of seasonal programs in the retail casualwear channel. Outerwear segment net sales were lower by \$130 million or 11% in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

Hosiery segment net sales were lower (15%) in 2009 compared to 2008. The net sales decline rate steady

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improved over three consecutive quarters ending with the fourth quarter of 2009. Hosiery segment net sales were lower by \$28 million or 13% in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

Direct to Consumer segment net sales were flat in 2009 compared to 2008 primarily due to higher net sales in our outlet stores attributable to new store openings offset by lower comparable store sales driven by lower traffic. The higher net sales in our outlet stores were partially offset by lower net sales related to our Internet operations. Direct to Consumer segment net sales were higher by \$7 million or 2% in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

International segment net sales were lower (12%) in 2009 compared to 2008, primarily attributable to an unfavorable impact of \$22 million related to foreign currency exchange rates and weak demand globally primarily in Europe, Japan and Canada, which experienced recessionary environments similar to that in the United States. International segment net sales declined by 7% in 2009 compared to 2008 after excluding the impact of foreign exchange rates on currency. International segment net sales were lower by \$56 million or 11% in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

Gross Profit

	Years Ended		Higher (Lower)	Percent Change
	January 2, 2010	January 3, 2009		
	(dollars in thousands)			
Gross profit	\$1,265,274	\$1,377,350	\$(112,076)	(8.1)

Our gross profit was lower by \$112 million in 2009 compared to 2008. Gross profit as a percent of net sales remained flat at 32.5% in 2009 compared to 32.4% in 2008.

Gross profit was lower due to lower sales volume of \$167 million, higher sales incentives of \$52 million and unfavorable product sales mix of \$45 million. Our sales incentives were higher as we made significant investments, especially in back-to-school and holiday programs and promotions, in this recessionary environment to support retailers and position ourselves for future sales opportunities. We also made significant investments in the fourth quarter of 2009 of approximately \$13 million with key retailers to obtain incremental shelf space for 2010 and beyond. Other factors contributing to lower gross profit were higher other manufacturing costs of \$33 million primarily related to lower volume partially offset by cost reductions at our manufacturing facilities, higher production costs of \$14 million related to higher energy and oil-related costs, including freight costs, higher cost of finished goods sourced from third party manufacturers of \$10 million primarily resulting from foreign exchange transaction losses, other vendor price increases of \$9 million and an \$8 million unfavorable impact related to foreign currency exchange rates. The unfavorable impact of foreign currency exchange rates in our International segment was primarily due to the strengthening of the U.S. dollar compared to the Mexican peso, Canadian dollar, Euro and Brazilian real partially offset by the strengthening of the Japanese yen compared to the U.S. dollar during 2009 compared to 2008. Duty refunds were lower by \$19 million in 2009 compared to 2008 as a result of the final passage of the Dominican Republic-Central America-United States Free Trade Agreement in Costa Rica which allowed us to recover in 2008 \$15 million of duties previously paid. In addition, we incurred \$8 million of favorable cost recognition in 2008 that did not reoccur in 2009 related to the capitalization of certain inventory supplies.

Our gross profit was positively impacted by higher product pricing of \$123 million before increased sales incentives, savings from our prior restructuring actions of \$45 million, lower on-going excess and obsolete inventory costs of \$30 million and lower cotton costs of \$26 million. The higher product pricing was due to the implementation of an average gross price increase of four percent in our domestic product categories in February 2009. The range of price increases varied by individual product category. The lower excess and obsolete inventory costs in 2009 are attributable to both our continuous evaluation of inventory levels and simplification of our product category offerings. We realized these benefits by driving down obsolete

inventory levels through aggressive management and promotions.

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The cotton prices reflected in our results were 55 cents per pound in 2009 as compared to 65 cents in 2008. Energy and oil-related costs were higher in 2009 due to a spike in oil-related commodity prices during the summer of 2008 which impacted our cost of sales in 2009.

We incurred lower one-time restructuring related write-offs of \$15 million in 2009 compared to 2008 for stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate. In addition, accelerated depreciation was lower by \$15 million in 2009 compared to 2008.

Selling, General and Administrative Expenses

	Years Ended			
	January 2, 2010	January 3, 2009	Higher (Lower)	Percent Change
	(dollars in thousands)			
Selling, general and administrative expenses	\$940,530	\$1,009,607	\$(69,077)	(6.8)

Our selling, general and administrative expenses were \$69 million lower in 2009 compared to 2008. Our continued focus on cost reductions resulted in lower expenses related to savings of \$33 million from our prior restructuring actions for compensation and related benefits, lower technology expenses of \$21 million, lower distribution expenses of \$16 million, lower bad debt expense of \$7 million primarily due to a customer bankruptcy in 2008, lower selling and other marketing related expenses of \$5 million, lower consulting related expenses of \$3 million and lower non-media related MAP expenses of \$2 million. The lower distribution expenses were primarily attributable to lower sales volume that reduced our labor, postage and freight expenses and lower rework expenses in our distribution centers. In addition, in October 2009, we recognized an \$8 million gain related to the sale of our yarn operations to Parkdale America.

Our media related MAP expenses were \$24 million lower in 2009 compared to 2008. While we chose to reduce our spending earlier in 2009, we made significant investments in the fourth quarter of 2009 to support retailers and position ourselves for future sales opportunities. MAP expenses may vary from period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions.

Our pension and stock compensation expenses, which are noncash, were higher by \$33 million and \$6 million, respectively, in 2009 compared to 2008. The higher pension expense was primarily due to the lower funded status of our pension plans at the end of 2008, which resulted from a decline in the fair value of plan assets due to the stock market's performance during 2008 and a higher discount rate at the end of 2008.

We also incurred higher expenses of \$4 million in 2009 compared to 2008 as a result of opening retail stores. We opened 17 retail stores during 2009. In addition, we incurred higher accelerated depreciation of \$3 million and higher other expenses of \$2 million related to amending the terms of all outstanding stock options granted under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (the Omnibus Incentive Plan) that had an original term of five or seven years to the tenth anniversary of the original grant date. Changes due to foreign currency exchange rates, which are included in the impact of the changes discussed above, resulted in lower selling, general and administrative expenses of \$6 million in 2009 compared to 2008.

Restructuring

	Years Ended			
	January 2, 2010	January 3, 2009	Higher (Lower)	Percent Change
	(dollars in thousands)			
Restructuring	\$53,888	\$50,263	\$3,625	7.2

During 2009, we ceased making our own yarn and now source all of our yarn requirements from large-scale yarn suppliers. We entered into an agreement with Parkdale America under which we agreed to

sell or lease assets related to operations at our four yarn manufacturing facilities to Parkdale America. The transaction closed in

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October 2009 and resulted in Parkdale America operating three of the four facilities. We approved an action to close the fourth yarn manufacturing facility, as well as a yarn warehouse and a cotton warehouse, all located in the United States, which will result in the elimination of approximately 175 positions. We also entered into a yarn purchase agreement with Parkdale and Parkdale Mills, LLC (together with Parkdale America, "Parkdale"). Under this agreement, which has an initial term of six years, Parkdale will produce and sell to us a substantial amount of our Western Hemisphere yarn requirements. During the first two years of the term, Parkdale will also produce and sell to us a substantial amount of the yarn requirements of our Nanjing, China textile facility.

In addition to the actions discussed above, during 2009 we approved actions to close seven manufacturing facilities and three distribution centers in the Dominican Republic, the United States, Costa Rica, Honduras, Puerto Rico and Canada which resulted in the elimination of an aggregate of approximately 3,925 positions in those countries and El Salvador. The production capacity represented by the manufacturing facilities was relocated to lower cost locations in Asia, Central America and the Caribbean Basin. The distribution capacity has been relocated to our West Coast distribution facility in California in order to expand capacity for goods we source from Asia. In addition, approximately 300 management and administrative positions were eliminated, with the majority of these positions based in the United States.

During 2009, we recorded charges related to employee termination and other benefits of \$24 million recognized in accordance with benefit plans previously communicated to the affected employee group, charges related to contract obligations of \$14 million, other exit costs of \$8 million related to moving equipment and inventory from closed facilities and fixed asset impairment charges of \$8 million.

In 2009 and 2008, we recorded one-time write-offs of \$4 million and \$19 million, respectively, of stranded raw materials and work in process inventory related to the closure of manufacturing facilities and recorded in the "Cost of sales" line. The raw materials and work in process inventory was determined not to be salvageable or cost-effective to relocate. In addition, in connection with our consolidation and globalization strategy, we recognized noncash charges of \$9 million and \$24 million in 2009 and 2008, respectively, in the

"Cost of sales" line and a noncash charge of \$3 million in 2009 in the "Selling, general and administrative expenses" line related to accelerated depreciation of buildings and equipment for facilities that have been closed or will be closed.

These actions were a continuation of our consolidation and globalization strategy, and represent the substantial completion of the consolidation and globalization of our supply chain.

During 2008, we incurred \$50 million in restructuring charges which primarily related to employee termination and other benefits and charges related to exiting supply contracts associated with plant closures approved during that period.

Operating Profit

	Years Ended			
	January 2, 2010	January 3, 2009	Higher (Lower)	Percent Change
	(dollars in thousands)			
Operating profit	\$270,856	\$ 317,480	\$(46,624)	(14.7)

Operating profit was lower in 2009 compared to 2008 as a result of lower gross profit of \$112 million and higher restructuring and related charges of \$4 million, partially offset by lower selling, general and administrative expenses of \$69 million. Changes in foreign currency exchange rates had an unfavorable impact on operating profit of \$1 million in 2009 compared to 2008. Operating profit was \$41 million lower in 2009 compared to 2008 excluding the impact of the 53rd week in 2008.

Table of Contents***Other Expense (Income)***

	Years Ended		Higher (Lower)	Percent Change
	January 2, 2010	January 3, 2009		
	(dollars in thousands)			
Other expense (income)	\$49,301	\$ (634)	\$49,935	NM

In December 2009, we completed the sale of our 8% Senior Notes and concurrently amended and restated the 2006 Senior Secured Credit Facility to provide for the 2009 Senior Secured Credit Facility. The proceeds from the sale of the 8% Senior Notes, together with the proceeds from borrowings under the 2009 Senior Secured Credit Facility, were used to refinance borrowings under the 2006 Senior Secured Credit Facility, to repay all borrowings under the Second Lien Credit Facility, and to pay fees and expenses relating to these transactions.

In connection with these transactions in December 2009, we recognized a loss on early extinguishment of debt of \$17 million related to unamortized debt issuance costs and fees paid in connection with the execution of the 2009 Senior Secured Credit Facility and the issuance of the 8% Senior Notes. In addition, in December 2009, we recognized a loss of \$26 million related to certain interest rate hedging arrangements which were terminated as a result of the refinancing of our outstanding borrowings under the 2006 Senior Secured Credit Facility and repayment of the outstanding borrowings under the Second Lien Credit Facility.

In September 2009 we incurred a \$2 million loss on early extinguishment of debt related to unamortized debt issuance costs resulting from the prepayment of \$140 million of principal under the 2006 Senior Secured Credit Facility.

In March 2009, we incurred costs of \$4 million to amend the 2006 Senior Secured Credit Facility and the Accounts Receivable Securitization Facility.

During 2008, we recognized a gain of \$2 million related to the repurchase of \$6 million of the Floating Rate Senior Notes for \$4 million. This gain was partially offset by a \$1 million loss on early extinguishment of debt related to unamortized debt issuance costs on the 2006 Senior Secured Credit Facility for the prepayment of \$125 million of principal in 2008.

Interest Expense, Net

	Years Ended		Higher (Lower)	Percent Change
	January 2, 2010	January 3, 2009		
	(dollars in thousands)			
Interest expense, net	\$163,279	\$ 155,077	\$ 8,202	5.3

Interest expense, net was higher by \$8 million in 2009 compared to 2008. The amendments of the 2006 Senior Secured Credit Facility and Accounts Receivable Securitization Facility in March 2009 increased our interest-rate margin by 300 basis points and 325 basis points, respectively, which increased interest expense in 2009 compared to 2008 by \$31 million. The execution of the 2009 Senior Secured Credit Facility and the issuance of the 8% Senior Notes in December 2009 increased interest expense in 2009 compared to 2008 by \$3 million.

These increases in interest expense were partially offset by a lower LIBOR and lower outstanding debt balances that reduced interest expense by a combined \$23 million. In addition, interest expense, net was lower by \$3 million in 2009 due to the impact of the 53rd week in 2008. Our weighted average interest rate on our outstanding debt was 6.86% during 2009 compared to 6.09% in 2008.

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

	Years Ended			
	January 2, 2010	January 3, 2009	Higher (Lower)	Percent Change
	(dollars in thousands)			
Income tax expense	\$6,993	\$ 35,868	\$(28,875)	(80.5)

Our annual effective income tax rate was 12.0% in 2009 compared to 22.0% in 2008. Our domestic earnings were lower in 2009 as a result of higher restructuring and related charges and the debt refinancing costs. The lower effective income tax rate was attributable primarily to a higher proportion of our earnings attributed to foreign subsidiaries which are taxed at rates lower than the U.S. statutory rate. Also, we recognized net tax benefits of \$12 million due to updated assessments of previously accrued amounts. Our strategic initiative to enhance our global supply chain by optimizing lower-cost manufacturing capacity and to support our commercial operations outside the United States resulted in capital investments outside the United States in 2009 that impacted our effective tax rate.

Net Income

	Years Ended			
	January 2, 2010	January 3, 2009	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net income	\$51,283	\$ 127,169	\$(75,886)	(59.7)

Net income for 2009 was lower than 2008 primarily due to higher other expenses of \$50 million, lower operating profit of \$47 million and higher interest expense of \$8 million, partially offset by lower income tax expense of \$29 million. Net income was \$73 million lower in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

Table of Contents**Operating Results by Business Segment Year Ended January 2, 2010 (2009) Compared with Year Ended January 3, 2009 (2008)**

	Years Ended		Higher (Lower)	Percent Change
	January 2, 2010	January 3, 2009		
	(dollars in thousands)			
Net sales:				
Innerwear	\$ 1,833,616	\$ 1,947,167	\$ (113,551)	(5.8)
Outerwear	1,051,735	1,196,155	(144,420)	(12.1)
Hosiery	185,710	217,391	(31,681)	(14.6)
Direct to Consumer	369,739	370,163	(424)	(0.1)
International	437,804	496,170	(58,366)	(11.8)
Other	12,671	21,724	(9,053)	(41.7)
Total net sales	\$ 3,891,275	\$ 4,248,770	\$ (357,495)	(8.4)
Segment operating profit (loss):				
Innerwear	\$ 234,352	\$ 223,420	\$ 10,932	4.9
Outerwear	53,050	66,149	(13,099)	(19.8)
Hosiery	61,070	68,696	(7,626)	(11.1)
Direct to Consumer	37,178	44,541	(7,363)	(16.5)
International	44,688	64,349	(19,661)	(30.6)
Other	(2,164)	328	(2,492)	NM
Total segment operating profit	428,174	467,483	(39,309)	(8.4)
Items not included in segment operating profit:				
General corporate expenses	(75,127)	(45,177)	29,950	66.3
Amortization of trademarks and other intangibles	(12,443)	(12,019)	424	3.5
Restructuring	(53,888)	(50,263)	3,625	7.2
Inventory write-off included in cost of sales	(4,135)	(18,696)	(14,561)	(77.9)
Accelerated depreciation included in cost of sales	(8,641)	(23,862)	(15,221)	(63.8)
Accelerated depreciation included in selling, general and administrative expenses	(3,084)	14	3,098	NM
Total operating profit	270,856	317,480	(46,624)	(14.7)
Other (expense) income	(49,301)	634	49,935	NM
Interest expense, net	(163,279)	(155,077)	8,202	5.3
Income before income tax expense	\$ 58,276	\$ 163,037	\$ (104,761)	(64.3)

A significant portion of the selling, general and administrative expenses in each segment is an allocation of our consolidated selling, general and administrative expenses, however certain expenses that are specifically identifiable to a segment are charged directly to such segment. The allocation methodology for the consolidated selling, general and administrative expenses for 2009 is consistent with 2008. Our consolidated selling, general and administrative expenses before segment allocations was \$69 million lower in 2009 compared to 2008.

Innerwear

	Years Ended		Higher (Lower)	Percent Change
	January 2, 2010	January 3, 2009		
Net sales	\$1,833,616	\$1,947,167	\$(113,551)	(5.8)
Segment operating profit	234,352	223,420	10,932	4.9
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activewear sales, which continue to benefit from our marketing investment in the brand, were higher by \$18 million. Outerwear segment net sales were lower by \$130 million or 11% in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

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The Outerwear segment gross profit was lower by \$39 million in 2009 compared to 2008. The lower gross profit is due to lower sales volume of \$47 million, unfavorable product sales mix of \$20 million, higher other manufacturing costs of \$15 million, higher sales incentives of \$8 million due to investments made with retailers, higher production costs of \$6 million related to higher energy and oil-related costs, including freight costs, and other vendor price increases of \$2 million. These higher costs were partially offset by savings of \$22 million from our prior restructuring actions, lower cotton costs of \$16 million, higher product pricing of \$16 million before increased sales incentives and lower on-going excess and obsolete inventory costs of \$5 million.

As a percent of segment net sales, gross profit in the Outerwear segment was 21.9% in 2009 compared to 22.5% in 2008, declining as a result of the items described above.

The lower Outerwear segment operating profit in 2009 compared to 2008 was primarily attributable to lower gross profit and higher media related MAP expenses of \$5 million partially offset by lower distribution expenses of \$11 million, savings of \$10 million from our prior restructuring actions, lower technology expenses of \$7 million, lower non-media related MAP expenses of \$3 million and lower bad debt expense of \$2 million primarily due to a customer bankruptcy in 2008.

Hosiery

	Years Ended			
	January 2, 2010	January 3, 2009	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$ 185,710	\$ 217,391	\$(31,681)	(14.6)
Segment operating profit	61,070	68,696	(7,626)	(11.1)

Net sales in the Hosiery segment declined by \$32 million or 15%, which was primarily due to lower sales of our *L eggs* brand to mass retailers and food and drug stores and our *Hanes* brand to national chains and department stores. The net sales decline rate improved over three consecutive quarters ending with the fourth quarter of 2009. Generally, we manage the Hosiery segment for cash, placing an emphasis on reducing our cost structure and managing cash efficiently. Hosiery segment net sales were lower by \$28 million or 13% in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

The Hosiery segment gross profit was lower by \$16 million in 2009 compared to 2008. The lower gross profit for 2009 compared to 2008 was the result of lower sales volume of \$23 million and higher other manufacturing costs of \$4 million, partially offset by higher product pricing of \$12 million. As a percent of segment net sales, gross profit in the Hosiery segment was 49.8% in 2009 and in 2008.

The lower Hosiery segment operating profit in 2009 compared to 2008 is primarily attributable to lower gross profit, partially offset by lower distribution expenses of \$3 million, savings of \$2 million from our prior restructuring actions and lower technology expenses of \$2 million.

Direct to Consumer

	Years Ended			
	January 2, 2010	January 3, 2009	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$ 369,739	\$ 370,163	\$ (424)	(0.1)
Segment operating profit	37,178	44,541	(7,363)	(16.5)

Direct to Consumer segment net sales were flat in 2009 compared to 2008 primarily due to higher net sales in our outlet stores of \$1 million attributable to new store openings offset by lower comparable store sales (3%) driven by lower traffic. The higher net sales in our outlet stores were partially offset by lower net

sales of \$1 million related

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to our Internet operations. Direct to Consumer segment net sales were higher by \$7 million or 2% in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

The Direct to Consumer segment gross profit was higher by \$5 million in 2009 compared to 2008. The higher gross profit is due to higher product pricing of \$13 million and lower on-going excess and obsolete inventory costs of \$2 million, partially offset by lower sales volume of \$7 million and unfavorable product sales mix of \$4 million.

As a percent of segment net sales, gross profit in the Direct to Consumer segment was 62.4% in 2009 compared to 61.1% in 2008, increasing as a result of the items described above.

The lower Direct to Consumer segment operating profit in 2009 compared to 2008 was primarily attributable to higher non-media related MAP expenses of \$6 million and higher expenses of \$4 million as a result of opening 17 retail stores during 2009, partially offset by higher gross profit.

International

	Years Ended			
	January 2, 2010	January 3, 2009	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	\$ 437,804	\$ 496,170	\$(58,366)	(11.8)
Segment operating profit	44,688	64,349	(19,661)	(30.6)

Overall net sales in the International segment were lower by \$58 million or 12% in 2009 compared to 2008 primarily attributable to an unfavorable impact of \$22 million related to foreign currency exchange rates and weak demand globally primarily in Europe, Japan and Canada, which experienced recessionary environments similar to that in the United States. International segment net sales declined by 7% in 2009 compared to 2008 after excluding the impact of foreign exchange rates on currency. The unfavorable impact of foreign currency exchange rates in our International segment was primarily due to the strengthening of the U.S. dollar compared to the Mexican peso, Canadian dollar, Euro and Brazilian real partially offset by the strengthening of the Japanese yen compared to the U.S. dollar during 2009 compared to 2008.

During 2009, we experienced lower net sales, in each case excluding the impact of foreign currency exchange rates but including the impact of the 53rd week, in our casualwear business in Europe of \$25 million, in our male underwear and activewear businesses in Japan of \$13 million, in our casualwear business in Puerto Rico of \$7 million resulting from moving the distribution capacity to the United States and in our socks and intimate apparel business in Canada of \$11 million. Lower segment net sales were partially offset by higher sales in our intimate apparel and male underwear businesses in Mexico of \$12 million and our male underwear business in Brazil of \$4 million. International segment net sales were lower by \$56 million or 11% in 2009 compared to 2008 after excluding the impact of the 53rd week in 2008.

The International segment gross profit was lower by \$38 million in 2009 compared to 2008. The lower gross profit was a result of lower sales volume of \$17 million, higher cost of finished goods sourced from third party manufacturers of \$12 million primarily resulting from foreign exchange transaction losses, unfavorable product sales mix of \$7 million, an unfavorable impact related to foreign currency exchange rates of \$8 million and higher sales incentives of \$4 million due to investments made with retailers, partially offset by higher product pricing of \$11 million.

As a percent of segment net sales, gross profit in the International segment was 36.7% in 2009 compared to 2008 at 40.1%, declining as a result of the items described above.

The lower International segment operating profit in 2009 compared to 2008 is primarily attributable to the lower gross profit, partially offset by lower media related MAP expenses of \$5 million, lower selling and other marketing related expenses of \$5 million, lower non-media related MAP expenses of \$3 million, lower distribution expenses of \$2 million and savings of \$2 million from our prior restructuring actions. The changes in foreign

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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 January 1, 2011 at a cost of \$75 million), although we may choose not to repurchase any stock and instead focus on other uses of cash such as the repayment of our debt.

We expect to be able to manage our working capital levels and capital expenditure amounts to maintain sufficient levels of liquidity. Factors that could help us in these efforts include higher sales volume and the realization of additional cost benefits from previous restructuring and related actions. We have restructured our supply chain over the past four years to create more efficient production clusters that utilize fewer, larger facilities and to balance production capability between the Western Hemisphere and Asia. As a result of sales growth in 2010 and the expectation of continued sales growth in 2011, we have secured additional capacity with outside contractors to support sales growth.

Our working capital increased during 2010, primarily in the form of inventory, to support our higher sales growth. The inventory increase is the result of both higher input costs and higher unit growth, including unit growth resulting from the Gear for Sports acquisition. Given cost inflation and higher product pricing, we expect higher working capital in 2011, in particular higher accounts receivable and inventories somewhat offset by increased inventory turns. With our global supply chain infrastructure in place, we are focused long-term on optimizing our supply chain to further enhance efficiency, improve working capital and asset turns and reduce costs through several initiatives, such as supplier-managed inventory for raw materials and sourced goods ownership arrangements.

We are operating in an uncertain and volatile economic environment, which could have unanticipated adverse effects on our business. During 2010, while there was a modest rebound in consumer spending, we also experienced substantial pressure on profitability due to the economic climate, such as higher cotton, energy and labor costs. Rising demand for cotton resulting from the economic recovery, weather-related supply disruptions, significant declines in U.S. inventory and a sharp rise in the futures market for cotton have caused cotton prices to surge upward during 2010. Because of systemic cost inflation, particularly for cotton, energy and labor, we expect to take price increases throughout 2011 as warranted by cost inflation, including multiple increases already put in place through late summer. The timing and frequency of price increases will vary by product category, channel of trade, and country, with some increases as frequently as quarterly. The magnitude of price increases also will vary by product category. Demand elasticity effects, which could be significant for higher double-digit price increases implemented later in the year, should be manageable and will have a muted impact in 2011.

The hosiery category has been in a state of consistent decline for the past decade, as the trend toward casual dress reduced demand for sheer hosiery. The Hosiery segment comprised only 4% of our net sales in 2010, however, and as a result, the decline in the Hosiery segment has not had a significant impact on our net sales or cash flows. Generally, we manage the Hosiery segment for cash, placing an emphasis on reducing our cost structure and managing cash efficiently.

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. In November 2010, we completed a \$1.0 billion senior notes offering and debt refinancing that strengthened and added flexibility to our capital structure by fixing a significant percentage of our debt at favorable interest rates at longer maturities.

Our working capital was higher in 2010 compared to 2009, primarily in the form of inventory, to support our higher sales growth. Year-end 2010 inventory was \$274 million higher than year-end 2009 due to unit growth and after giving effect to the Gear for Sports acquisition. In addition, our inventory was higher due to rising input costs such as cotton and oil-related materials and the Asia supply chain transition and production

ramp-up. In 2011 we expect working capital to be higher than 2010 to support the continued double-digit sales growth, price increases and cost inflation.

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Capital spending has varied significantly from year to year as we executed our supply chain consolidation and globalization strategy and the integration and consolidation of our technology systems. We spent \$106 million on gross capital expenditures during 2010, which were offset by cash proceeds of \$46 million from sales of exited supply chain facilities and sale-leaseback transactions. We expect to continue to invest in our infrastructure during 2011 with net capital expenditures approximating \$100 million.

During 2009 and 2010, we entered into agreements to sell selected trade accounts receivable to financial institutions on a nonrecourse basis. After the sale, we do not retain any interests in the receivables nor are we involved in the servicing or collection of these receivables.

Pension Plans

Our U.S. qualified pension plan is approximately 74% funded as of January 1, 2011 compared to 80% funded as of January 2, 2010. The funded status reflects an increase in the benefit obligation due to a decrease in the discount rate used in the valuation of the liability, partially offset by an increase in the fair value of plan assets as a result of the stock market's performance during 2010. Because we have elected not to make a voluntary cash contribution in 2011 sufficient to achieve a funded status of 80%, beginning April 1, 2011 we are required under the Pension Protection Act to implement restrictions on certain accelerated forms of benefit payments for future retirees. We performed a thorough review of the impact of making a voluntary cash contribution to the plan in order to maintain a funded level of 80%. Based on our review, and given that these restrictions are expected to impact only a limited number of plan participants, will not impact the total benefits received by plan participants and will not have a material impact on our future cash flows, we determined not to make such a contribution to the plan. We expect to make required cash contributions of \$7 million to \$9 million to the U.S. qualified pension plan in 2011 based on a preliminary calculation by our actuary. We expect pension expense in 2011 of approximately \$11 million compared to \$15 million in 2010. See Note 15 to our financial statements for more information on the plan asset components.

In connection with closing a manufacturing facility in early 2009, we, as required, notified the Pension Benefit Guaranty Corporation (the PBGC) of the closing and requested a liability determination under section 4062(e) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), with respect to the National Textiles, L.L.C. Pension Plan. In September 2009, we entered into an agreement with the PBGC under which we agreed to contribute \$14 million to the plan, \$7 million of which we contributed in each of September 2009 and September 2010.

In June 2010, the U.S. Congress passed legislation that provides for pension funding relief for companies with defined benefit pension plans by allowing those companies to choose between two alternative funding schedules: amortizing funding shortfalls over 15 years for any two plan years between 2008 and 2011, or paying interest on a funding shortfall for only two plan years of the employer's choosing after which a seven-year amortization would apply. We expect either funding relief option could benefit us with improved cash flow starting in 2011 due to expected lower pension contributions; however neither option will improve total cash flow. We are working with our actuaries to quantify the magnitude of the short-term impact on us.

Share Repurchase Program

On February 1, 2007, we announced that our Board of Directors granted authority for the repurchase of up to 10 million shares of our common stock. Share repurchases are made periodically in open-market transactions, and are subject to market conditions, legal requirements and other factors. Additionally, management has been granted authority to establish a trading plan under Rule 10b5-1 of the Exchange Act in connection with share repurchases, which will allow us to repurchase shares in the open market during periods in which the stock trading window is otherwise closed for our company and certain of our officers and employees pursuant to our insider trading policy. Since inception of the program, we have purchased 2.8 million shares of our common stock at a cost of \$75 million (average price of \$26.33). The primary objective of our share repurchase program is to reduce the impact of dilution caused by the exercise of options and vesting of stock unit awards. While we may repurchase additional stock under the program, we may choose not to repurchase any stock and focus more on other uses of cash in the next twelve months.

Table of Contents*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.

Future Contractual Obligations and Commitments

The following table contains information on our contractual obligations and commitments as of January 2011, and their expected timing on future cash flows and liquidity.

	At January 1, 2011	Less Than 1 Year	Payments Due by Period		
			1 - 3 Years (in thousands)	3 - 5 Years	Thereafter
Operating activities:					
Inventory purchase obligations	\$ 466,642	\$ 466,642	\$	\$	\$
Marketing and advertising obligations	26,427	18,624	3,783	3,269	75
Uncertain tax positions	34,424	587	14,809	7,009	12,010
Deferred compensation	12,273	1,939	5,477	2,338	2,510
Interest on debt obligations (1)	953,024	122,898	245,074	226,302	358,750
Operating lease obligations	268,898	52,220	78,041	56,699	81,930
Defined benefit plan minimum contributions	8,000	8,000			
Severance and other restructuring payments	6,042	6,036	6		
Other long-term obligations (2)	92,050	10,109	30,678	29,463	21,800
Investing activities:					
Capital expenditures	3,895	3,895			
Financing activities:					
Debt	2,080,735	90,000		490,735	1,500,000
Notes payable	50,678	50,678			
Total	\$ 4,003,088	\$ 831,628	\$ 377,868	\$ 815,815	\$ 1,977,770

(1) Interest obligations on floating rate debt instruments are calculated for future periods using interest rate in effect at January 1, 2011.

(2) Represents the projected payment for long-term liabilities recorded on the Consolidated Balance Sheet for certain employee benefit claims, royalty-bearing license agreement payments and capital leases.

Table of Contents***Sources and Uses of Our Cash***

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

	Years Ended	
	January 1, 2011	January 2, 2010
	(dollars in thousands)	
Operating activities	\$ 133,054	\$ 414,500
Investing activities	(283,995)	(88,840)
Financing activities	155,685	(354,170)
Effect of changes in foreign currency exchange rates on cash	(16)	11
Increase (decrease) in cash and cash equivalents	4,728	(28,390)
Cash and cash equivalents at beginning of year	38,943	67,340
Cash and cash equivalents at end of year	\$ 43,671	\$ 38,940

Operating Activities

Net cash provided by operating activities was \$133 million in 2010 compared to \$415 million in 2009. The lower cash from operating activities of \$282 million for 2010 compared to 2009 is primarily attributable to higher uses of our working capital of \$441 million, partially offset by higher net income of \$160 million.

Net inventory increased \$274 million from January 2, 2010 resulting from both higher input costs and higher unit growth, including unit growth resulting from the Gear for Sports acquisition. In addition, our inventory was higher due to rising input costs such as cotton and oil-related materials and the Asia supply chain transition and production ramp-up. We will carry additional inventory into 2011 to support continuing sales momentum and will secure additional production capacity with outside contractors as needed.

Accounts receivable was \$53 million higher compared to January 2, 2010 primarily due to higher sales volumes and the acquisition of Gear for Sports, partially offset by the sale of selected trade accounts receivable to financial institutions and timing of collections.

With our global supply chain infrastructure in place, we are focused long-term on optimizing our supply chain to further enhance efficiency, improve working capital and asset turns and reduce costs through several initiatives, such as supplier-managed inventory for raw materials and sourced goods ownership arrangements. Factors that could help us in these efforts include higher sales volume and the realization of additional cost benefits from previous restructuring and related actions.

Investing Activities

Net cash used in investing activities was \$284 million in 2010 compared to \$89 million in 2009. The higher net cash used in investing activities of \$195 million for 2010 compared to 2009 was primarily the result of the net cash used for the acquisition of Gear for Sports in November 2010 of \$223 million, partially offset by lower gross capital expenditures of \$21 million and higher proceeds from sales of assets of \$8 million. During 2010, proceeds from sales of assets were \$46 million, primarily resulting from sale-leaseback transactions involving four distribution centers.

Financing Activities

Net cash provided by financing activities was \$156 million in 2010 compared to net cash used in financing activities of \$354 million in 2009. The higher net cash from financing activities of \$510 million in 2010 compared to 2009 was primarily the result of higher net borrowings of \$443 million under the senior secured credit facilities and senior notes. The higher net borrowings reflect the acquisition of Gear for Sports.

in November 2010. In addition, we had higher net borrowings of \$133 million on the Accounts Receivable Securitization Facility and lower debt

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fees associated with the issuance of our 6.375% Senior Notes of \$51 million.

We had higher net repayments on the Revolving Loan Facility of \$103 million and higher net repayment on notes payable of \$21 million in 2010. In addition, the higher net cash from financing activities was due to higher proceeds from stock options exercised of \$5 million in 2010.

Cash and Cash Equivalents

As of January 1, 2011 and January 2, 2010, cash and cash equivalents were \$44 million and \$39 million, respectively. The higher cash and cash equivalents as of January 1, 2011 was primarily the result of net cash provided by financing activities of \$156 million and net cash provided by operating activities of \$133 million, offset by net cash used in investing activities of \$284 million.

Financing Arrangements

We believe our financing structure provides a secure base to support our ongoing operations and key business strategies. In November 2010, we completed the sale of \$1 billion in aggregate principal amount of the 6.375% Senior Notes. We used the net proceeds from the offering of the 6.375% Senior Notes to repay all outstanding borrowings under the Term Loan Facility and to reduce the outstanding borrowings under the Revolving Loan Facility. In December 2009, we completed a growth-focused debt refinancing that enables us to simultaneously reduce leverage and consider acquisition opportunities. The refinancing gives us more flexibility in our use of excess cash flow, allows continued debt reduction, and provides a stable long-term capital structure with extended debt maturities at rates slightly lower than previous effective rates. The refinancing consisted of the sale of our \$500 million 8% Senior Notes and the concurrent amendment and restatement of our 2006 Senior Secured Credit Facility to provide for the \$1.15 billion 2009 Senior Secured Credit Facility. The proceeds from the sale of the 8% Senior Notes, together with the proceeds from borrowings under the 2009 Senior Secured Credit Facility, were used to refinance borrowings under the 2006 Senior Secured Credit Facility, to repay all borrowings under the Second Lien Credit Facility and to pay fees and expenses relating to these transactions.

Moody's Investors Service's (Moody's) corporate credit rating for us is Ba3 and Standard & Poor's Services' (Standard & Poor's) corporate credit rating for us is BB-. Moody's rating outlook for us is stable and its rating of the Floating Rate Senior Notes and 8% Senior Notes is B1. In November 2010, Moody's assigned a rating of B1 on the 6.375% Senior Notes and changed the rating of the 2009 Senior Secured Credit Facility to Baa3. In November 2010, Standard & Poor's changed our current outlook to stable from negative, the rating of the Floating Rate Senior Notes and the 8% Senior Notes to BB- and assigned a rating of BB- to the 6.375% Senior Notes.

After considering the Revolving Credit Facility's new investment grade rating, we launched an amendment process in February 2011 that is intended to provide greater flexibility in managing our debt capital structure and greater flexibility under our financial covenants. The amendment would also extend the maturity and lower the interest rate for those lenders agreeing to it.

As of January 1, 2011, we were in compliance with all financial covenants under our credit facilities. The maximum leverage ratio permitted under the 2009 Senior Secured Credit Facility and the Accounts Receivable Securitization Facility was 4.00 to 1 for the quarter ended January 1, 2011 and declines to 3.75 to 1 beginning with the second fiscal quarter of 2011. We continue to monitor our covenant compliance carefully in this difficult economic environment. We expect to maintain compliance with our covenants during 2011, however economic conditions or the occurrence of events discussed above under Risk Factors could cause noncompliance.

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2009 Senior Secured Credit Facility

The 2009 Senior Secured Credit Facility initially provided for aggregate borrowings of \$1.15 billion, consisting of the \$750 million Term Loan Facility and the \$400 million Revolving Loan Facility. The proceeds of the Term Loan Facility were used to refinance all amounts outstanding under the Term A loan facility (in an initial principal amount of \$250 million) and Term B loan facility (in an initial principal amount of \$1.4 billion) under the 2006 Senior Secured Credit Facility and to repay all amounts outstanding under the Second Lien Credit Facility. Proceeds of the Revolving Loan Facility were used to pay fees and expenses in connection with these transactions, and are used for general corporate purposes and working capital needs.

A portion of the Revolving Loan Facility is available for the issuances of letters of credit and the making of swingline loans, and any such issuance of letters of credit or making of a swingline loan will reduce the amount available under the Revolving Loan Facility. At our option, we may add one or more term loan facilities or increase the commitments under the Revolving Loan Facility in an aggregate amount of up to \$300 million so long as certain conditions are satisfied, including, among others, that no default or event of default is in existence and that we are in pro forma compliance with the financial covenants described below. In order to support our working capital needs and fund the acquisition of Gear for Sports, in September 2010 we increased the commitments under the Revolving Loan Facility from \$400 million to \$600 million. In November 2010, we used proceeds from the issuance of the 6.375% Senior Notes to repay all outstanding borrowings under the Term Loan Facility and to reduce the outstanding borrowings under the Revolving Loan Facility. As of January 1, 2011, we had \$0 outstanding under the Revolving Loan Facility, \$12 million of standby and trade letters of credit issued and outstanding under this facility and \$588 million of borrowing availability. At January 1, 2011, the interest rate on the Revolving Loan Facility was 6.75%.

The 2009 Senior Secured Credit Facility is guaranteed by substantially all of our existing and future direct and indirect U.S. subsidiaries, with certain customary or agreed-upon exceptions for certain subsidiaries. We and each of the guarantors under the 2009 Senior Secured Credit Facility have granted the lenders under the 2009 Senior Secured Credit Facility a valid and perfected first priority (subject to certain customary exceptions) lien and security interest in the following:

the equity interests of substantially all of our direct and indirect U.S. subsidiaries and 65% of the voting securities of certain first tier foreign subsidiaries; and

substantially all present and future property and assets, real and personal, tangible and intangible, of and each guarantor, except for certain enumerated interests, and all proceeds and products of such property and assets.

The Revolving Loan Facility matures on December 10, 2013. All borrowings under the Revolving Loan Facility must be repaid in full upon maturity. Outstanding borrowings under the 2009 Senior Secured Credit Facility are prepayable without penalty.

At our option, borrowings under the 2009 Senior Secured Credit Facility may be maintained from time to time as (a) Base Rate loans, which shall bear interest at the highest of (i) 1/2 of 1% in excess of the federal funds rate, (ii) the rate publicly announced by JPMorgan Chase Bank as its prime rate at its principal office in New York City, in effect from time to time and (iii) the LIBO Rate (as defined in the 2009 Senior Secured Credit Facility and adjusted for maximum reserves) for LIBOR-based loans with a one-month interest period plus 1.0%, in effect from time to time, in each case plus the applicable margin, or (b) LIBOR-based loans, which shall bear interest at the higher of (i) LIBO Rate (as defined in the 2009 Senior Secured Credit Facility and adjusted for maximum reserves), as determined by reference to the rate for deposits in dollars appearing on the Reuters Screen LIBOR01 Page for the respective interest period or other commercially available source designated by the administrative agent, and (ii) 2.00%, plus the applicable margin in effect from time to time. The applicable margin is determined by reference to a leverage-based pricing grid set forth in the 2009 Senior Secured Credit Facility. The applicable margin ranges from a maximum of 4.75% in the case of LIBOR-based loans and 3.75% in the case of Base Rate loans if our leverage ratio is greater than or equal to

4.00 to 1, and will step down in 0.25% increments to a minimum of 4.00% in the case of LIBOR-based loans and 3.00% in the case of Base Rate loans if our leverage ratio is less than 2.50 to 1.

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The 2009 Senior Secured Credit Facility requires us to comply with customary affirmative, negative and financial covenants. The 2009 Senior Secured Credit Facility requires that we maintain a minimum interest coverage ratio and a maximum total debt to EBITDA (earnings before income taxes, depreciation expense and amortization, as computed pursuant to the 2009 Senior Secured Credit Facility), or leverage ratio. The interest coverage ratio covenant requires that the ratio of our EBITDA for the preceding four fiscal quarters to our consolidated total interest expense for such period shall not be less than a specified ratio for each fiscal quarter beginning with the fourth fiscal quarter of 2009. This ratio was 2.50 to 1 for the fourth fiscal quarter of 2009 and increases over time until it reaches 3.25 to 1 for the third fiscal quarter of 2011 and thereafter. The leverage ratio covenant requires that the ratio of our total debt to EBITDA for the preceding four fiscal quarters will not be more than a specified ratio for each fiscal quarter beginning with the fourth fiscal quarter of 2009. This ratio was 4.50 to 1 for the fourth fiscal quarter of 2009 and declines over time until it reaches 3.75 to 1 for the second fiscal quarter of 2011 and thereafter. The method of calculating all of the components used in the covenants is included in the 2009 Senior Secured Credit Facility.

The 2009 Senior Secured Credit Facility contains customary events of default, including nonpayment of principal when due; nonpayment of interest, fees or other amounts after stated grace period; material inaccuracy of representations and warranties; violations of covenants; certain bankruptcies and liquidations; any cross-default to material indebtedness; certain material judgments; certain events related to ERISA, actual or asserted invalidity of any guarantee, security document or subordination provision or non-perfection of security interest, and a change in control (as defined in the 2009 Senior Secured Credit Facility).

6.375% Senior Notes

On November 9, 2010, we issued \$1 billion aggregate principal amount of the 6.375% Senior Notes. The 6.375% Senior Notes are senior unsecured obligations that rank equal in right of payment with all of our existing and future unsubordinated indebtedness. The 6.375% Senior Notes bear interest at an annual rate equal to 6.375%. Interest is payable on the 6.375% Senior Notes on June 15 and December 15 of each year. The 6.375% Senior Notes will mature on December 15, 2020. The net proceeds from the sale of the 6.375% Senior Notes were approximately \$979 million. As noted above, these proceeds were used to repay all outstanding borrowings under the Term Loan Facility and reduce the outstanding borrowings under the Revolving Loan Facility and to pay fees and expenses relating to these transactions. The 6.375% Senior Notes are guaranteed by substantially all of our domestic subsidiaries.

We may redeem some or all of the notes prior to December 15, 2015 at a redemption price equal to 100% of the principal amount of 6.375% Senior Notes redeemed plus an applicable premium. We may redeem some or all of the 6.375% Senior Notes at any time on or after December 15, 2015 at a redemption price equal to the principal amount of the 6.375% Senior Notes plus a premium of 3.188% if redeemed during the 12-month period commencing on December 15, 2015, 2.125% if redeemed during the 12-month period commencing on December 15, 2016, 1.062% if redeemed during the 12-month period commencing on December 15, 2017 and no premium if redeemed after December 15, 2018, as well as any accrued and unpaid interest as of the redemption date. In addition, at any time prior to December 15, 2013, we may redeem up to 35% of the aggregate principal amount of the 6.375% Senior Notes at a redemption price of 106.375% of the principal amount of the 6.375% Senior Notes redeemed with the net cash proceeds of certain equity offerings.

The indenture governing the 6.375% Senior Notes contains customary events of default which include (subject in certain cases to customary grace and cure periods), among others, nonpayment of principal or interest; breach of other agreements in such indenture; failure to pay certain other indebtedness; failure to pay certain final judgments; failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency.

8% Senior Notes

On December 10, 2009, we issued \$500 million aggregate principal amount of the 8% Senior Notes. The 8% Senior Notes are senior unsecured obligations that rank equal in right of payment with all of our existing and future unsubordinated indebtedness. The 8% Senior Notes bear interest at an annual rate equal to 8%.

Interest is payable on the 8% Senior Notes on June 15 and December 15 of each year. The 8% Senior Notes will mature on December 15,

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2016. The net proceeds from the sale of the 8% Senior Notes were approximately \$480 million. As noted above, these proceeds, together with the proceeds from borrowings under the 2009 Senior Secured Credit Facility, were used to refinance borrowings under the 2006 Senior Secured Credit Facility, to repay all borrowings under the Second Lien Credit Facility and to pay fees and expenses relating to these transactions. The 8% Senior Notes are guaranteed by substantially all of our domestic subsidiaries.

We may redeem some or all of the notes prior to December 15, 2013 at a redemption price equal to 100% of the principal amount of 8% Senior Notes redeemed plus an applicable premium. We may redeem some or all of the 8% Senior Notes at any time on or after December 15, 2013 at a redemption price equal to the principal amount of the 8% Senior Notes plus a premium of 4% if redeemed during the 12-month period commencing on December 15, 2013, 2% if redeemed during the 12-month period commencing on December 15, 2014 and no premium if redeemed after December 15, 2015, as well as any accrued and unpaid interest as of the redemption date. In addition, at any time prior to December 15, 2012, we may redeem up to 35% of the aggregate principal amount of the 8% Senior Notes at a redemption price of 108% of the principal amount of the 8% Senior Notes redeemed with the net cash proceeds of certain equity offerings.

The indenture governing the 8% Senior Notes contains customary events of default which include (subject in certain cases to customary grace and cure periods), among others, nonpayment of principal or interest; breach of other agreements in such indenture; failure to pay certain other indebtedness; failure to pay certain final judgments; failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency.

Floating Rate Senior Notes

On December 14, 2006, we issued \$500 million aggregate principal amount of the Floating Rate Senior Notes. The Floating Rate Senior Notes are senior unsecured obligations that rank equal in right of payment with all of our existing and future unsubordinated indebtedness. The Floating Rate Senior Notes bear interest at an annual rate, reset semi-annually, equal to LIBOR plus 3.375%. Interest is payable on the Floating Rate Senior Notes on June 15 and December 15 of each year. The Floating Rate Senior Notes will mature on December 15, 2014. The net proceeds from the sale of the Floating Rate Senior Notes were approximately \$492 million. These proceeds, together with our working capital, were used to repay in full the \$500 million outstanding under the bridge loan facility that we entered into in 2006. The Floating Rate Senior Notes are guaranteed by substantially all of our domestic subsidiaries.

We may redeem some or all of the Floating Rate Senior Notes at any time on or after December 15, 2008 at a redemption price equal to the principal amount of the Floating Rate Senior Notes plus a premium of 2% if redeemed during the 12-month period commencing on December 15, 2008, 1% if redeemed during the 12-month period commencing on December 15, 2009 and no premium if redeemed after December 15, 2010 as well as any accrued and unpaid interest as of the redemption date.

The indenture governing the Floating Rate Senior Notes contains customary events of default which include (subject in certain cases to customary grace and cure periods), among others, nonpayment of principal or interest; breach of other agreements in such indenture; failure to pay certain other indebtedness; failure to pay certain final judgments; failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency.

We repurchased \$3 million of the Floating Rate Senior Notes for \$2.8 million resulting in a gain of \$0.2 million in 2009. We repurchased \$6 million of the Floating Rate Senior Notes for \$4 million resulting in a gain of \$2 million in 2008.

Accounts Receivable Securitization

On November 27, 2007, we entered into the Accounts Receivable Securitization Facility, which we subsequently amended several times. The description of the Accounts Receivable Securitization Facility below gives effect to all amendments to date. The Accounts Receivable Securitization Facility initially provided for up to \$250 million in funding accounted for as a secured borrowing, limited to the availability of eligible receivables, and is secured by certain domestic trade receivables. Effective February 2010, we

elected to reduce the amount of funding available under the Accounts Receivable Securitization Facility from \$250 million to \$150 million. Under the terms of the Accounts Receivable Securitization Facility, we and certain of our subsidiaries sell, on a revolving basis, certain domestic trade receivables to HBI Receivables LLC (Receivables LLC), a wholly-owned

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bankruptcy-remote subsidiary that in turn uses the trade receivables to secure the borrowings, which are funded through conduits that issue commercial paper in the short-term market and are not affiliated with us or through committed bank purchasers if the conduits fail to fund. The assets and liabilities of Receivables LLC are fully reflected on the Consolidated Balance Sheet, and the securitization is treated as a secured borrowing for accounting purposes. The borrowings under the Accounts Receivable Securitization Facility remain outstanding throughout the term of the agreement subject to us maintaining sufficient eligible receivables, by continuing to sell trade receivables to Receivables LLC, unless an event of default occurs. Unless the term is extended, the Accounts Receivable Securitization Facility will terminate on March 31, 2011.

Availability of funding under the Accounts Receivable Securitization Facility depends primarily upon the eligible outstanding receivables balance. As of January 1, 2011, we had \$90 million outstanding under the Accounts Receivable Securitization Facility. The outstanding balance under the Accounts Receivable Securitization Facility is reported on our Consolidated Balance Sheet in the line Current portion of debt. Unless the conduits fail to fund, the yield on the commercial paper, which is the conduits' cost to issue the commercial paper plus certain dealer fees, is considered a financing cost and is included in interest expense on the Consolidated Statement of Income. If the conduits fail to fund, the Accounts Receivable Securitization Facility would be funded through committed bank purchasers, and the interest rate payable at our option at the rate announced from time to time by HSBC Bank USA, N.A. as its prime rate or at the LIBO Rate (as defined in the Accounts Receivable Securitization Facility) plus the applicable margin in effect from time to time. In addition, Receivables LLC is required to make certain payments to a conduit purchaser, a committed purchaser, or certain entities that provide funding to or are affiliated with them, in the event that assets and liabilities of a conduit purchaser are consolidated for financial and/or regulatory accounting purposes with certain other entities. The average blended interest rate for the outstanding balance as of January 1, 2011 was 2.81%.

The Accounts Receivable Securitization Facility contains customary events of default and requires us to maintain the same interest coverage ratio and leverage ratio contained from time to time in the 2009 Senior Secured Credit Facility, provided that any changes to such covenants will only be applicable for purposes of the Accounts Receivable Securitization Facility if approved by the Managing Agents or their affiliates. As of January 1, 2011, we were in compliance with all financial covenants.

Notes Payable

Notes payable were \$51 million at January 1, 2011 and \$67 million at January 2, 2010.

We have a short-term revolving facility arrangement with a Salvadoran branch of a Canadian bank amounting to \$30 million of which \$29.7 million was outstanding at January 1, 2011 which accrues interest at 4.20%.

We have a short-term revolving facility arrangement with a Chinese branch of a U.S. bank amounting to RMB 155 million (\$23.5 million) of which \$12.9 million was outstanding at January 1, 2011 which accrues interest at 7.65%. Borrowings under the facility accrue interest at the prevailing base lending rates published by the People's Bank of China from time to time plus 50%.

We have a short-term revolving facility arrangement with a Vietnamese branch of a U.S. bank amounting to \$14 million of which \$3.4 million was outstanding at January 1, 2011 which accrues interest at 5.05%.

We have a short-term revolving facility arrangement with a Japanese branch of a U.S. bank amounting to JPY 800 million (\$9.8 million) of which \$2.5 million was outstanding at January 1, 2011 which accrues interest at 4.61%.

We have a short-term revolving facility arrangement with an Indian branch of a U.S. bank amounting to INR 100 million (\$2.2 million) of which \$1.8 million was outstanding at January 1, 2011 which accrues interest at 12.80%.

We have a short-term revolving facility arrangement with a Brazilian bank amounting to BRL 2 million (\$1.2 million) of which \$0.4 million was outstanding at January 1, 2011 which accrues interest at 13.56%.

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In addition, we have short-term revolving credit facilities in various other locations that can be drawn on from time to time amounting to \$4.6 million of which \$0 was outstanding at January 1, 2011.

We were in compliance with the financial covenants contained in each of these facilities at January 1, 2011.

Derivatives

Our debt under the Revolving Loan Facility, Floating Rate Senior Notes and Accounts Receivable Securitization Facility bears interest at variable rates. As a result, we are exposed to changes in market interest rates that could impact the cost of servicing our debt. We were required under the 2009 Senior Secured Credit Facility to hedge a portion of our floating rate debt to reduce interest rate risk caused by floating rate debt issuance. To comply with this requirement, in the first quarter of 2010 we entered into a hedging arrangement whereby we capped the LIBOR interest rate component on \$490.7 million of the floating rate debt under the Floating Rate Senior Notes at 4.262%. In addition, in November 2010, we completed a \$1.0 billion senior notes offering and debt refinancing that strengthened and added flexibility to our capital structure by fixing a significant percentage of our debt at favorable interest rates at longer maturities. As a result, approximately 96% of our total debt outstanding at January 1, 2011 is now at a fixed or capped rate. After giving effect to these arrangements, a 25-basis point movement in the annual interest rate charged on the outstanding debt balances as of January 1, 2011 would result in a change in annual interest expense of \$2 million. We may also execute interest rate cash flow hedges in the form of caps and swaps in the future in order to mitigate our exposure to variability in cash flows for the future interest payments on a designated portion of borrowings.

We use forward exchange and option contracts to reduce the effect of fluctuating foreign currencies for a portion of our anticipated short-term foreign currency-denominated transactions.

Critical Accounting Policies and Estimates

We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial condition in conformity with accounting principles generally accepted in the United States. We apply these accounting policies in a consistent manner. Our significant accounting policies are discussed in Note 2, titled Summary of Significant Accounting Policies, to our financial statements.

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 described below.

Sales Recognition and Incentives

We recognize revenue when (i) there is persuasive evidence of an arrangement, (ii) the sales price is fixed or determinable, (iii) title and the risks of ownership have been transferred to the customer and (iv) collection of the receivable is reasonably assured, which occurs primarily upon shipment. We record provisions for uncollectible amounts based upon our historical collection statistics and current customer information. Our management reviews these estimates each quarter and makes adjustments based upon actual experience.

Note 2(d), titled Summary of Significant Accounting Policies Sales Recognition and Incentives, to our financial statements describes a variety of sales incentives that we offer to resellers and consumers of our products. Measuring the cost of these incentives requires, in many cases, estimating future customer utilization and redemption rates. We use historical data for similar transactions to estimate the cost of current incentive programs. Our management reviews these estimates each quarter and makes adjustments based upon actual experience and other available information. We classify the costs associated with cooperative advertising as a reduction of Net sales in our Consolidated Statements of Income.

Table of Contents***Accounts Receivable Valuation***

Accounts receivable consist primarily of amounts due from customers. We carry our accounts receivable at their net realizable value. In determining the appropriate allowance for doubtful accounts, we consider a combination of factors, such as the aging of trade receivables, industry trends, and our customers' financial strength, credit standing, and payment and default history. Changes in the aforementioned factors, among others, may lead to adjustments in our allowance for doubtful accounts. The calculation of the required allowance requires judgment by our management as to the impact of these and other factors on the ultimate realization of our trade receivables. Charges to the allowance for doubtful accounts are reflected in the

Selling, general and administrative expenses line and charges to the allowance for customer chargebacks and other customer deductions are primarily reflected as a reduction in the Net sales line of our Consolidated Statements of Income. Our management reviews these estimates each quarter and makes adjustments based upon actual experience. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a large reserve might be required. The amount of actual historical losses has not varied materially from our estimates for bad debts.

Inventory Valuation

We carry inventory on our balance sheet at the estimated lower of cost or market. Cost is determined by the first-in, first-out, or FIFO, method for our inventories. We carry obsolete, damaged, and excess inventory at the net realizable value, which we determine by assessing historical recovery rates, current market conditions and our future marketing and sales plans. Because our assessment of net realizable value is made at a point in time, there are inherent uncertainties related to our value determination. Market factors and other conditions underlying the net realizable value may change, resulting in further reserve requirements. A reduction in the carrying amount of an inventory item from cost to market value creates a new cost basis for the item that cannot be reversed at a later period. While we believe that adequate write-downs for inventory obsolescence have been provided in the financial statements, consumer tastes and preferences will continue to change and we could experience additional inventory write-downs in the future.

Rebates, discounts and other cash consideration received from a vendor related to inventory purchases are reflected as reductions in the cost of the related inventory item, and are therefore reflected in cost of sales when the related inventory item is sold.

Income Taxes

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. We have recorded deferred taxes related to operating losses and capital loss carryforwards. Realization of deferred tax assets is dependent on future taxable income in specific jurisdictions, the amount and timing of which are uncertain, possible changes in tax laws and tax planning strategies. If in our judgment it appears that we will not be able to generate sufficient taxable income or capital gains to offset losses during the carryforward periods, we have recorded valuation allowances to reduce those deferred tax assets to amounts expected to be ultimately realized. An adjustment to income tax expense would be required in a future period if we determine that the amount of deferred tax assets to be realized differs from the net recorded amount.

Federal income taxes are provided on that portion of our income of foreign subsidiaries that is expected to be remitted to the United States and be taxable, reflecting the decisions made by us with regards to earnings permanently reinvested in foreign jurisdictions. Decisions we make as to the amount of earnings permanently reinvested in foreign jurisdictions, due to anticipated cash flow or other business requirements, may impact our federal income tax provision and effective tax rate.

We periodically estimate the probable tax obligations using historical experience in tax jurisdictions and our informed judgment. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which we transact business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to, or further interpretations of, regulations. Income tax expense is adjusted in the period in which these events occur, and these adjustments are included in our

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Statements of Income. If such changes take place, there is a risk that our effective tax rate may increase or decrease in any period. A company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

We recognized a change in our estimate of unrecognized tax benefit accruals of \$20 million in 2010. This change in estimate resulted from the circumstances described above in Consolidated Results of Operations Year Ended January 1, 2011 Compared with Year Ended January 2, 2010, and was not a result of any change in the application of our accounting policies.

In conjunction with the spin off, we and Sara Lee entered into a tax sharing agreement, which allocates responsibilities between us and Sara Lee for taxes and certain other tax matters. Under the tax sharing agreement, Sara Lee generally is liable for all U.S. federal, state, local and foreign income taxes attributable to us with respect to taxable periods ending on or before September 5, 2006. Sara Lee also is liable for income taxes attributable to us with respect to taxable periods beginning before September 5, 2006 and ending after September 5, 2006, but only to the extent those taxes are allocable to the portion of the taxable period ending on September 5, 2006. We are generally liable for all other taxes attributable to us. Changes in the amounts payable or receivable by us under the stipulations of this agreement may impact our tax provision in any period.

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

Based on our computation of the final amount of deferred taxes for our opening balance sheet as of September 6, 2006, the amount that is expected to be collected from Sara Lee based on our computation of \$72 million, which reflects a preliminary cash installment received from Sara Lee of \$18 million, is included as a receivable in Other Current Assets in the Consolidated Balance Sheets as of January 1, 2011 and January 2, 2010. We exchanged information with Sara Lee in connection with this matter, but Sara Lee disagreed with our computation. In accordance with the dispute resolution provisions of the tax sharing agreement, in August 2009, we submitted the dispute to binding arbitration. The arbitration process is ongoing, and we will continue to prosecute our claim. We do not believe that the resolution of this dispute will have a material impact on our financial position, results of operations or cash flows.

Stock Compensation

We established the Omnibus Incentive Plan to award stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, performance shares and cash to our employees, non-employee directors and employees of our subsidiaries to promote the interest of our company and increase

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performance and retention of employees. Stock-based compensation is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period. Estimation of stock-based compensation for stock options granted, utilizing the Black-Scholes option-pricing model, requires various highly subjective assumptions including volatility and expected option life. We use a combination of the volatility of our company and the volatility of peer

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companies for a period of time that is comparable to the expected life of the option to determine volatility assumptions. We utilize the simplified method outlined in SEC accounting rules to estimate expected lives for options granted. The simplified method is used for valuing stock option grants by eligible public companies that do not have sufficient historical exercise patterns on options granted to employees. We estimate forfeitures for stock-based awards granted that are not expected to vest. If any of these inputs or assumptions changes significantly, our stock-based compensation expense could be materially different in the future.

Defined Benefit Pension Plans

For a discussion of our net periodic benefit cost, plan obligations, plan assets, and how we measure the amount of these costs, see Note 15 titled *Defined Benefit Pension Plans* to our consolidated financial statements.

Our U.S. qualified pension plan is approximately 74% funded as of January 1, 2011 compared to 80% funded as of January 2, 2010. The funded status reflects an increase in the benefit obligation due to a decrease in the discount rate used in the valuation of the liability, partially offset by an increase in the fair value of plan assets as a result of the stock market's performance during 2010. Because we have elected not to make a voluntary cash contribution in 2011 sufficient to achieve a funded status of 80%, beginning April 1, 2011 we are required under the Pension Protection Act to implement restrictions on certain accelerated forms of benefit payments for future retirees. We performed a thorough review of the impact of making a voluntary cash contribution to the plan in order to maintain a funded level of 80%. Based on our review, and given that these restrictions are expected to impact only a limited number of plan participants, will not impact the total benefits received by plan participants and will not have a material impact on our future cash flows, we determined not to make such a contribution to the plan. We expect to make required cash contributions of \$5 million to \$9 million to the U.S. qualified pension plan in 2011 based on a preliminary calculation by our actuary. See Note 15 to our financial statements for more information on the plan asset components. The funded status of our defined benefit pension plans are recognized on our balance sheet and changes in the funded status are reflected in comprehensive income. We measure the funded status of our plans as of the date of our fiscal year end. We expect pension expense in 2011 of approximately \$11 million compared to \$15 million in 2010.

The net periodic cost of the pension plans is determined using projections and actuarial assumptions, the most significant of which are the discount rate and the long-term rate of asset return. The net periodic pension income or expense is recognized in the year incurred. Gains and losses, which occur when actual experience differs from actuarial assumptions, are amortized over the average future expected life of participants.

Our policies regarding the establishment of pension assumptions are as follows:

In determining the discount rate, we utilized the Citigroup Pension Discount Curve (rounded to the nearest 10 basis points) in order to determine a unique interest rate for each plan and match the expected cash flows for each plan.

Salary increase assumptions were based on historical experience and anticipated future management actions. The salary increase assumption only applies to the Canadian plans and portions of the Hanesbrands nonqualified retirement plans, as benefits under these plans are not frozen. The benefits under the Hanesbrands Inc. Pension Plan were frozen as of December 31, 2005.

In determining the long-term rate of return on plan assets we applied a proportionally weighted blend between assuming the historical long-term compound growth rate of the plan portfolio would predict the future returns of similar investments, and the utilization of forward looking assumptions.

Retirement rates were based primarily on actual experience while standard actuarial tables were used to estimate mortality.

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The sensitivity of changes in actuarial assumptions on our annual pension expense and on our plans' projected benefit obligations, all other factors being equal, is illustrated by the following:

(in millions)	Pension Expense	Increase (Decrease) in Projected Benefit Obligation
1% decrease in discount rate	\$ 1	\$ 12
1% increase in discount rate	(1)	(10)
1% decrease in expected investment return	6	
1% increase in expected investment return	(6)	

Trademarks and Other Identifiable Intangibles

Trademarks, license agreements, customer and distributor relationships and computer software are our primary identifiable intangible assets. We amortize identifiable intangibles with finite lives, and we do not amortize identifiable intangibles with indefinite lives. We base the estimated useful life of an identifiable intangible asset upon a number of factors, including the effects of demand, competition, expected changes in distribution channels and the level of maintenance expenditures required to obtain future cash flows. As of January 1, 2011, the net book value of trademarks and other identifiable intangible assets was \$179 million, of which we are amortizing the entire balance. We anticipate that our amortization expense for 2011 will be \$14 million.

We evaluate identifiable intangible assets subject to amortization for impairment using a process similar to that used to evaluate asset amortization described below under Depreciation and Impairment of Property, Plant and Equipment. We assess identifiable intangible assets not subject to amortization for impairment at least annually and more often as triggering events occur. In order to determine the impairment of identifiable intangible assets not subject to amortization, we compare the fair value of the intangible asset to its carrying amount. We recognize an impairment loss for the amount by which an identifiable intangible asset's carrying value exceeds its fair value.

We measure a trademark's fair value using the royalty saved method. We determine the royalty saved method by evaluating various factors to discount anticipated future cash flows, including operating results, business plans, and present value techniques. The rates we use to discount cash flows are based on interest rates and the cost of capital at a point in time. Because there are inherent uncertainties related to these factors and our judgment in applying them, the assumptions underlying the impairment analysis may change in such a manner that impairment in value may occur in the future. Such impairment will be recognized in the period in which it becomes known.

Goodwill

As of January 1, 2011, we had \$430 million of goodwill. We do not amortize goodwill, but we assess for impairment at least annually and more often as triggering events occur. The timing of our annual goodwill impairment testing is the first day of the third fiscal quarter. The estimated fair values significantly exceeded the carrying values of each of our reporting units as of the first day of the third fiscal quarter, and no impairment of goodwill was identified as a result of the testing conducted in 2010.

In evaluating the recoverability of goodwill, we estimate the fair value of our reporting units. We rely on a number of factors to determine the fair value of our reporting units and evaluate various factors to discount anticipated future cash flows, including operating results, business plans, and present value techniques. As discussed above under Trademarks and Other Identifiable Intangibles, there are inherent uncertainties related to these factors, and our judgment in applying them and the assumptions underlying the impairment analysis may change in such a manner that impairment in value may occur in the future. Such impairment will be recognized in the period in which it becomes known.

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We evaluate the recoverability of goodwill using a two-step process based on an evaluation of reporting units. The first step involves a comparison of a reporting unit's fair value to its carrying value. In the second step, if the reporting unit's carrying value exceeds its fair value, we compare the goodwill's implied fair value and its carrying value. If the goodwill's carrying value exceeds its implied fair value, we recognize an impairment loss in an amount equal to such excess.

Depreciation and Impairment of Property, Plant and Equipment

We state property, plant and equipment at its historical cost, and we compute depreciation using the straight-line method over the asset's life. We estimate an asset's life based on historical experience, manufacturers' estimates, engineering or appraisal evaluations, our future business plans and the period over which the asset will economically benefit us, which may be the same as or shorter than its physical life. Our policies require that we periodically review our assets' remaining depreciable lives based upon actual experience and expected future utilization. A change in the depreciable life is treated as a change in accounting estimate and the accelerated depreciation is accounted for in the period of change and future periods. Based upon current levels of depreciation, the average remaining depreciable life of our net property other than land is five years.

We test an asset for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. Such events include significant adverse changes in business climate, several periods of operating or cash flow losses, forecasted continuing losses or a current expectation that an asset or asset group will be disposed of before the end of its useful life. We evaluate an asset's recoverability by comparing the asset or asset group's net carrying amount to the future net undiscounted cash flows we expect such asset or asset group will generate. If we determine that an asset is not recoverable, we recognize an impairment loss in the amount by which the asset's carrying amount exceeds its estimated fair value.

When we recognize an impairment loss for an asset held for use, we depreciate the asset's adjusted carrying amount over its remaining useful life. We do not restore previously recognized impairment losses if circumstances change.

Insurance Reserves

We maintain insurance coverage for property, workers' compensation and other casualty programs. We are responsible for losses up to certain limits and are required to estimate a liability that represents the ultimate exposure for aggregate losses below those limits. This liability is based on management's estimates of the ultimate costs to be incurred to settle known claims and claims not reported as of the balance sheet date. The estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions. If actual trends differ from the estimates, the financial results could be impacted. Actual trends have not differed materially from the estimates.

Assets and Liabilities Acquired in Business Combinations

We account for business acquisitions using the purchase method, which requires us to allocate the cost of an acquired business to the acquired assets and liabilities based on their estimated fair values at the acquisition date. We recognize the excess of an acquired business's cost over the fair value of acquired assets and liabilities as goodwill. We use a variety of information sources to determine the fair value of acquired assets and liabilities. We generally use third-party appraisers to determine the fair value and lives of property and identifiable intangibles, consulting actuaries to determine the fair value of obligations associated with defined benefit pension plans, and legal counsel to assess obligations associated with legal and environmental claims.

Recently Issued Accounting Pronouncements***Fair Value Disclosures***

In January 2010, the Financial Accounting Standards Board issued new accounting rules related to the disclosure requirements for fair value measurements. The new accounting rules require new disclosures regarding

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significant transfers between Levels 1 and 2 of the fair value hierarchy and the activity within Level 3 of the fair value hierarchy. The new accounting rules also clarify existing disclosures regarding the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The new accounting rules were effective for us in the first quarter of 2010, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the disclosures effective for our first quarter of 2010 did not have material impact on our financial condition, results of operations or cash flows but resulted in certain additional disclosures reflected in Note 14 to the consolidated financial statements.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

We are exposed to market risk from changes in foreign exchange rates, interest rates and commodity prices. Our risk management control system uses analytical techniques including market value, sensitivity analysis and value at risk estimations.

Foreign Exchange Risk

We sell the majority of our products in transactions denominated in U.S. dollars; however, we purchase some raw materials, pay a portion of our wages and make other payments in our supply chain in foreign currencies. Our exposure to foreign exchange rates exists primarily with respect to the Canadian dollar, European euro, Mexican peso and Japanese yen against the U.S. dollar. We use foreign exchange forward and option contracts to hedge material exposure to adverse changes in foreign exchange rates. A sensitivity analysis technique has been used to evaluate the effect that changes in the market value of foreign exchange currencies will have on our forward and option contracts. At January 1, 2011, the potential change in fair value of foreign currency derivative instruments, assuming a 10% adverse change in the underlying currency price, was \$13 million.

Interest Rates

Our debt under the Revolving Loan Facility, Floating Rate Senior Notes and Accounts Receivable Securitization Facility bears interest at variable rates. As a result, we are exposed to changes in market interest rates that could impact the cost of servicing our debt. We were required under the 2009 Senior Secured Credit Facility to hedge a portion of our floating rate debt to reduce interest rate risk caused by floating rate debt issuance. To comply with this requirement, in the first quarter of 2010 we entered into a hedging arrangement whereby we capped the LIBOR interest rate component on \$490.7 million of the floating rate debt under the Floating Rate Senior Notes at 4.262%. In addition, in November 2010, we completed a \$1.0 billion senior notes offering and debt refinancing that strengthened and added flexibility to our capital structure by fixing a significant percentage of our debt at favorable interest rates at longer maturities. As a result, approximately 96% of our total debt outstanding at January 1, 2011 is now at a fixed or capped rate. After giving effect to these arrangements, a 25-basis point movement in the annual interest rate charged on the outstanding debt balances as of January 1, 2011 would result in a change in annual interest expense of \$2 million. We may also execute interest rate cash flow hedges in the form of caps and swaps in the future in order to mitigate our exposure to variability in cash flows for the future interest payments on a designated portion of borrowings.

Commodities

Cotton is the primary raw material used in manufacturing many of our products. While we have sold our yarn operations, we are still exposed to fluctuations in the cost of cotton. During 2010, cotton prices hit their highest levels in 140 years. Increases in the cost of cotton can result in higher costs in the price we pay for yarn from our large-scale yarn suppliers. Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by, among other things, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. We are able to lock in the cost of cotton reflected in the price we pay for yarn from our primary yarn suppliers in an attempt to protect our business from the volatility of the market price of cotton. However, our business can

be affected by dramatic movements in cotton prices. Although the cost of cotton used in goods manufactured by us has

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historically represented only 6% of our cost of sales, it has risen to around 10% primarily as a result of cost inflation. The cotton prices reflected in our results were 69 cents per pound in 2010 and 55 cents per pound in 2009. Costs incurred for materials and labor are capitalized into inventory and impact our results as the inventory is sold. For example, we estimate that a change of \$0.01 per pound in cotton prices at current levels of production would affect our annual cost of sales by \$4 million related to finished goods manufactured internally in our manufacturing facilities and \$1 million related to finished goods sourced from third parties. The ultimate effect of this change on our earnings cannot be quantified, as the effect of movements in cotton prices on industry selling prices are uncertain, but any dramatic increase in the price of cotton would have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, fluctuations in crude oil or petroleum prices may influence the prices of other raw materials we use to manufacture our products, such as chemicals, dyestuffs, polyester yarn and foam. We generally purchase raw materials at market prices. We estimate that a change of \$10.00 per barrel in the price of oil would affect our freight costs by approximately \$5 million, at current levels of usage.

Item 8. *Financial Statements and Supplementary Data*

Our financial statements required by this item are contained on pages F-1 through F-59 of this Annual Report on Form 10-K. See Item 15(a)(1) for a listing of financial statements provided.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Disclosure 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.

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management's annual report on internal control over financial reporting and the report of independent registered public accounting firm are incorporated by reference to pages F-2 and F-3 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

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 a reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

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PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Information required by this Item 10 regarding our executive officers is included in Item 1C of this Annual Report on Form 10-K. We will provide other information that is responsive to this Item 10 in our definitive proxy statement or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report. That information is incorporated in this Item 10 by reference

Item 11. *Executive Compensation*

We will provide information that is responsive to this Item 11 in our definitive proxy statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K. That information is incorporated in this Item 11 by reference

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

We will provide information that is responsive to this Item 12 in our definitive proxy statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K. That information is incorporated in this Item 12 by reference

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

We will provide information that is responsive to this Item 13 in our definitive proxy statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K. That information is incorporated in this Item 13 by reference

Item 14. *Principal Accounting Fees and Services*

We will provide information that is responsive to this Item 14 in our definitive proxy statement or in an amendment to this Annual Report on Form 10-K not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K. That information is incorporated in this Item 14 by reference

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PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a)(1)-(2) Financial Statements and Schedules

The financial statements and schedules listed in the accompanying Index to Consolidated Financial Statements on page F-1 are filed as part of this Report.

(a)(3) Exhibits

See Index to Exhibits beginning on page E-1, which is incorporated by reference herein. The Index to Exhibits lists all exhibits filed with this Report and identifies which of those exhibits are management contracts and compensation plans.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on the 15th day of February, 2011.

HANESBRANDS INC.

/s/ Richard A. Noll

Richard A. Noll
Chief Executive Officer

POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Richard A. Noll, E. Lee Wyatt Jr. and Joia M. Johnson, and each one of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission hereby ratifying and confirming all that each said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
/s/ Richard A. Noll Richard A. Noll	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	February 15, 2011
/s/ E. Lee Wyatt Jr. E. Lee Wyatt Jr.	Chief Financial Officer (principal financial officer)	February 15, 2011
/s/ Dale W. Boyles Dale W. Boyles	Chief Accounting Officer and Controller (principal accounting officer)	February 15, 2011

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<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
/s/ Lee A. Chaden Lee A. Chaden	Director	February 15, 2011
/s/ Bobby J. Griffin Bobby J. Griffin	Director	February 15, 2011
/s/ James C. Johnson James C. Johnson	Director	February 15, 2011
/s/ Jessica T. Mathews Jessica T. Mathews	Director	February 15, 2011
/s/ J. Patrick Mulcahy J. Patrick Mulcahy	Director	February 15, 2011
/s/ Ronald L. Nelson Ronald L. Nelson	Director	February 15, 2011
/s/ Andrew J. Schindler Andrew J. Schindler	Director	February 15, 2011
/s/ Ann E. Ziegler Ann E. Ziegler	Director	February 15, 2011

Table of Contents**INDEX TO EXHIBITS**

References in this Index to Exhibits to the Registrant are to Hanesbrands Inc. The Registrant will furnish you, without charge, a copy of any exhibit, upon written request. Written requests to obtain any exhibit should be sent to Corporate Secretary, Hanesbrands Inc., 1000 East Hanes Mill Road, Winston-Salem, North Carolina 27105.

**Exhibit
Number****Description**

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

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<u>Exhibit Number</u>	<u>Description</u>
3.13	Amended and Restated Bylaws of CC Products, Inc. (incorporated by reference from Exhibit 3.51 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.14	Certificate of Incorporation of Ceibena Del, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.12 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.15	Bylaws of Ceibena Del, Inc. (incorporated by reference from Exhibit 3.13 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.16	Articles of Incorporation of Event 1, Inc. (incorporated by reference from Exhibit 3.52 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.17	Amended and Restated Bylaws of Event 1, Inc. (incorporated by reference from Exhibit 3.53 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.18	Amended and Restated Certificate of Incorporation of GearCo, Inc. (incorporated by reference from Exhibit 3.44 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.19	Amended and Restated Bylaws of GearCo, Inc. (incorporated by reference from Exhibit 3.45 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.20	Third Amended and Restated Certificate of Incorporation of GFSI Holdings, Inc. (incorporated by reference from Exhibit 3.46 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.21	Amended and Restated Bylaws of GFSI Holdings, Inc. (incorporated by reference from Exhibit 3.47 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.22	Amended and Restated Certificate of Incorporation of GFSI, Inc. (incorporated by reference from Exhibit 3.48 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.23	Amended and Restated Bylaws of GFSI, Inc. (incorporated by reference from Exhibit 3.49 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
3.24	Certificate of Formation of Hanes Menswear, LLC, together with Certificate of Conversion from a Corporation to a Limited Liability Company Pursuant to Section 18-214 of the Limited Liability Company Act and Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.14 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.25	Limited Liability Company Agreement of Hanes Menswear, LLC (incorporated by reference from Exhibit 3.15 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).

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<u>Exhibit Number</u>	<u>Description</u>
3.26	Certificate of Incorporation of HPR, Inc., together with Certificate of Merger of Hanes Puerto Rico, Inc. into HPR, Inc. (now known as Hanes Puerto Rico, Inc.) (incorporated by reference from Exhibit 3.16 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.27	Bylaws of Hanes Puerto Rico, Inc. (incorporated by reference from Exhibit 3.17 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.28	Articles of Organization of Sara Lee Direct, LLC, together with Articles of Amendment reflecting the change of the entity's name to Hanesbrands Direct, LLC (incorporated by reference from Exhibit 3.18 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.29	Limited Liability Company Agreement of Sara Lee Direct, LLC (now known as Hanesbrands Direct, LLC) (incorporated by reference from Exhibit 3.19 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.30	Certificate of Incorporation of Sara Lee Distribution, Inc., together with Certificate of Amendment of Certificate of Incorporation of Sara Lee Distribution, Inc. reflecting the change of the entity's name to Hanesbrands Distribution, Inc. (incorporated by reference from Exhibit 3.20 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.31	Bylaws of Sara Lee Distribution, Inc. (now known as Hanesbrands Distribution, Inc.) (incorporated by reference from Exhibit 3.21 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.32	Certificate of Formation of HBI Branded Apparel Enterprises, LLC (incorporated by reference from Exhibit 3.22 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.33	Operating Agreement of HBI Branded Apparel Enterprises, LLC (incorporated by reference from Exhibit 3.23 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.34	Certificate of Incorporation of HBI Branded Apparel Limited, Inc. (incorporated by reference from Exhibit 3.24 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.35	Bylaws of HBI Branded Apparel Limited, Inc. (incorporated by reference from Exhibit 3.25 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.36	Certificate of Formation of HbI International, LLC (incorporated by reference from Exhibit 3.26 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.37	Limited Liability Company Agreement of HbI International, LLC (incorporated by reference from Exhibit 3.27 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.38	Certificate of Formation of SL Sourcing, LLC, together with Certificate of Amendment to the Certificate of Formation of SL Sourcing, LLC reflecting the change of the entity's name to

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HBI Sourcing, LLC (incorporated by reference from Exhibit 3.28 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).

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<u>Exhibit Number</u>	<u>Description</u>
3.39	Limited Liability Company Agreement of SL Sourcing, LLC (now known as HBI Sourcing, LLC) (incorporated by reference from Exhibit 3.29 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.40	Certificate of Formation of Inner Self LLC (incorporated by reference from Exhibit 3.30 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.41	Limited Liability Company Agreement of Inner Self LLC (incorporated by reference from Exhibit 3.31 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.42	Certificate of Formation of Jasper-Costa Rica, L.L.C. (incorporated by reference from Exhibit 3.32 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.43	Amended and Restated Limited Liability Company Agreement of Jasper-Costa Rica, L.L.C. (incorporated by reference from Exhibit 3.33 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.44	Certificate of Formation of Playtex Dorado, LLC, together with Certificate of Conversion from a Corporation to a Limited Liability Company Pursuant to Section 18-214 of the Limited Liability Company Act (incorporated by reference from Exhibit 3.36 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.45	Amended and Restated Limited Liability Company Agreement of Playtex Dorado, LLC (incorporated by reference from Exhibit 3.37 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.46	Certificate of Incorporation of Playtex Industries, Inc. (incorporated by reference from Exhibit 3.38 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.47	Bylaws of Playtex Industries, Inc. (incorporated by reference from Exhibit 3.39 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.48	Certificate of Formation of Seamless Textiles, LLC, together with Certificate of Conversion from a Corporation to a Limited Liability Company Pursuant to Section 18-214 of the Limited Liability Company Act (incorporated by reference from Exhibit 3.40 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.49	Limited Liability Company Agreement of Seamless Textiles, LLC (incorporated by reference from Exhibit 3.41 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.50	Certificate of Incorporation of UPCR, Inc., together with Certificate of Change of Location Registered Office and Registered Agent (incorporated by reference from Exhibit 3.42 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.51	Bylaws of UPCR, Inc. (incorporated by reference from Exhibit 3.43 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the

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<u>Exhibit Number</u>	<u>Description</u>
3.52	Certificate of Incorporation of UPEL, Inc., together with Certificate of Change of Location, Registered Office and Registered Agent (incorporated by reference from Exhibit 3.44 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
3.53	Bylaws of UPEL, Inc. (incorporated by reference from Exhibit 3.45 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).
4.1	Rights Agreement between Hanesbrands Inc. and Computershare Trust Company, N.A., Rights Agent. (incorporated by reference from Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).
4.2	Form of Rights Certificate (incorporated by reference from Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).
4.3	Placement Agreement dated December 11, 2006 among the Registrant, certain subsidiaries of the Registrant and Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference from Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2006).
4.4	Indenture dated as of December 14, 2006 (the 2006 Indenture), among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company (incorporated by reference from Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2006).
4.5	First Supplemental Indenture (the the 2006 Indenture) dated August 13, 2010 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company (incorporated by reference from Exhibit 10.50 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
4.6	Second Supplemental Indenture (to the 2006 Indenture) dated November 1, 2010 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company (incorporated by reference from Exhibit 4.5 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2010).
4.7	Registration Rights Agreement dated as of December 14, 2006 among the Registrant, certain subsidiaries of the Registrant, and Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, ABN AMRO Incorporated, Barclays Capital Inc., Citigroup Global Markets Inc., and HSBC Securities (USA) Inc. (incorporated by reference from Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2006).
4.8	Indenture, dated as of August 1, 2008 (the 2008 Indenture) among the Registrant, certain subsidiaries of the Registrant, and Branch Banking and Trust Company (incorporated by reference from Exhibit 4.3 to the Registrant's Registration Statement on Form S-3 (Commission file number 333-152733) filed with the Securities and Exchange Commission on August 1, 2008).
4.9	Underwriting Agreement dated December 3, 2009 between the Registrant, certain subsidiaries of the Registrant and J.P. Morgan Securities Inc. (incorporated by reference from Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 11, 2009).

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<u>Exhibit Number</u>	<u>Description</u>
4.10	First Supplemental Indenture (to the 2008 Indenture) dated December 10, 2009 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company (incorporated by reference from Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 11, 2009).
4.11	Second Supplemental Indenture (to the 2008 Indenture) dated August 13, 2010 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company (incorporated by reference from Exhibit 10.49 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).
4.12	Third Supplemental Indenture (to the 2008 Indenture) dated November 1, 2010 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company (incorporated by reference from Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2010).
4.13	Purchase Agreement dated November 4, 2010 among the Registrant, certain subsidiaries of the Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Goldman, Sachs & Co. (incorporated by reference from Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2010).
4.14	Fourth Supplemental Indenture (to the 2008 Indenture) dated November 9, 2010 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company (incorporated by reference from Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2010).
4.15	Registration Rights Agreement dated November 9, 2010 among the Registrant, certain subsidiaries of the Registrant and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Goldman, Sachs & Co. (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 2010).
10.1	Hanesbrands Inc. Omnibus Incentive Plan of 2006, as amended (incorporated by reference from Exhibit 10.1 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-171114) filed with the Securities and Exchange Commission on December 10, 2010).*
10.2	Form of Stock Option Grant Notice and Agreement under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (incorporated by reference from Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).*
10.3	Form of Restricted Stock Unit Grant Notice and Agreement under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (incorporated by reference from Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).*
10.4	Form of Performance Cash Award Grant Notice and Agreement under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (incorporated by reference from Exhibit 10.4 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 9, 2010).*
10.5	Form of Performance Stock and Cash Award Stock Component Grant Notice and Agreement under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (incorporated by reference from

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<u>Exhibit Number</u>	<u>Description</u>
10.6	Form of Non-Employee Director Restricted Stock Unit Grant Notice and Agreement under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (incorporated by reference from Exhibit 10.4 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.7	Form of Non-Employee Director Stock Option Grant Notice and Agreement under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (incorporated by reference from Exhibit 10.5 to the Registrant's Transition Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2007).*
10.8	Hanesbrands Inc. Retirement Savings Plan, as amended.*
10.9	Hanesbrands Inc. Supplemental Employee Retirement Plan (incorporated by reference from Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 9, 2010).*
10.10	Hanesbrands Inc. Performance-Based Annual Incentive Plan (incorporated by reference from Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).*
10.11	Hanesbrands Inc. Executive Deferred Compensation Plan (incorporated by reference from Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on October 31, 2008).*
10.12	Hanesbrands Inc. Executive Life Insurance Plan (incorporated by reference from Exhibit 10.10 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.13	Hanesbrands Inc. Executive Long-Term Disability Plan. (incorporated by reference from Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.14	Hanesbrands Inc. Employee Stock Purchase Plan of 2006, as amended (incorporated by reference from Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 29, 2010).*
10.15	Hanesbrands Inc. Non-Employee Director Deferred Compensation Plan (incorporated by reference from Exhibit 10.13 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.16	Severance/Change in Control Agreement dated December 18, 2008 between the Registrant and Richard A. Noll. (incorporated by reference from Exhibit 10.14 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.17	Severance/Change in Control Agreement dated December 18, 2008 between the Registrant and Gerald W. Evans Jr. (incorporated by reference from Exhibit 10.15 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.18	Severance/Change in Control Agreement dated December 18, 2008 between the Registrant and E. Lee Wyatt Jr. (incorporated by reference from Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.19	Severance/Change in Control Agreement dated December 10, 2008 between the Registrant and Kevin W. Oliver (incorporated by reference from Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*

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<u>Exhibit Number</u>	<u>Description</u>
10.20	Severance/Change in Control Agreement dated December 17, 2008 between the Registrant and Joia M. Johnson (incorporated by reference from Exhibit 10.18 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.21	Severance/Change in Control Agreement dated December 18, 2008 between the Registrant and William J. Nictakis (incorporated by reference from Exhibit 10.19 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 11, 2009).*
10.22	Master Separation Agreement dated August 31, 2006 between the Registrant and Sara Lee Corporation (incorporated by reference from Exhibit 10.21 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.23	Tax Sharing Agreement dated August 31, 2006 between the Registrant and Sara Lee Corporation (incorporated by reference from Exhibit 10.22 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.24	Employee Matters Agreement dated August 31, 2006 between the Registrant and Sara Lee Corporation (incorporated by reference from Exhibit 10.23 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.25	Master Transition Services Agreement dated August 31, 2006 between the Registrant and Sara Lee Corporation (incorporated by reference from Exhibit 10.24 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.26	Real Estate Matters Agreement dated August 31, 2006 between the Registrant and Sara Lee Corporation (incorporated by reference from Exhibit 10.25 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.27	Indemnification and Insurance Matters Agreement dated August 31, 2006 between the Registrant and Sara Lee Corporation (incorporated by reference from Exhibit 10.26 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.28	Intellectual Property Matters Agreement dated August 31, 2006 between the Registrant and Sara Lee Corporation (incorporated by reference from Exhibit 10.27 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.29	First Lien Credit Agreement dated September 5, 2006 (the 2006 Senior Secured Credit Facility) among the Registrant the various financial institutions and other persons from time to time party thereto, HSBC Bank USA, National Association, LaSalle Bank National Association, Barclays Bank PLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc., Citicorp USA, Inc. and Citibank, N.A. (incorporated by reference from Exhibit 10.28 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.30	First Amendment dated February 22, 2007 to the 2006 Senior Secured Credit Facility (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2007).
10.31	Second Amendment dated August 21, 2008 to the 2006 Senior Secured Credit Facility (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2008).
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Third Amendment dated March 10, 2009 to the 2006 Senior Secured Credit Facility
(incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-
filed with the Securities and Exchange Commission on March 16, 2009).

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<u>Exhibit Number</u>	<u>Description</u>
10.33	Amended and Restated Credit Agreement dated as of September 5, 2006, as amended and restated as of December 10, 2009, among the Registrant, the various financial institutions and other Persons from time to time party to this Agreement, Barclays Bank PLC and Goldman Sachs Credit Partners L.P., as the co-documentation agents, Bank of America, N.A. and HSBC Securities (USA) Inc., as the co-syndication agents, JPMorgan Chase Bank, N.A., as the administrative agent and the collateral agent, and J.P. Morgan Securities Inc., Banc of America Securities LLC, HSBC Securities (USA) Inc. and Barclays Capital, the investment banking division of Barclays Bank PLC, as the joint lead arrangers and joint bookrunners (incorporated by reference from Exhibit 10.32 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 9, 2010).
10.34	Second Lien Credit Agreement dated September 5, 2006 (the Second Lien Credit Agreement) among HBI Branded Apparel Limited, Inc., the Registrant, the various financial institutions and other persons from time to time party thereto, HSBC Bank USA, National Association, LaSalle Bank National Association, Barclays Bank PLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc., Citicorp USA, Inc. and Citibank, N.A. (incorporated by reference from Exhibit 10.29 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2006).
10.35	First Amendment dated August 21, 2008 to the Second Lien Credit Agreement (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 27, 2008).
10.36	Receivables Purchase Agreement dated as of November 27, 2007 (the Accounts Receivable Securitization Facility) among HBI Receivables LLC and the Registrant, JPMorgan Chase Bank, N.A., HSBC Bank USA, National Association, Falcon Asset Securitization Company LLC, Bryant Park Funding LLC, and HSBC Securities (USA) Inc. (incorporated by reference from Exhibit 10.34 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2008).
10.37	Amendment No. 1 dated as of March 16, 2009 to the Accounts Receivables Securitization Facility (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 16, 2009).
10.38	Amendment No. 2 dated as of April 13, 2009 to the Accounts Receivables Securitization Facility (incorporated by reference from Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 11, 2009).
10.39	Amendment No. 3 dated as of August 17, 2009 to the Accounts Receivables Securitization Facility (incorporated by reference from Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 5, 2009).
10.40	Amendment No. 4 dated as of December 10, 2009 to the Accounts Receivables Securitization Facility (incorporated by reference from Exhibit 10.39 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 9, 2010).
10.41	Amendment No. 5 dated as of December 21, 2009 to the Accounts Receivables Securitization Facility (incorporated by reference from Exhibit 10.40 to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 9, 2010).
10.42	Amendment No. 6 dated as of December 18, 2010 to the Accounts Receivables Securitization Facility.
10.43	Amendment No. 7 dated as of January 31, 2011 to the Accounts Receivables Securitization Facility.
12.1	Ratio of Earnings to Fixed Charges.

21.1	Subsidiaries of the Registrant.
23.1	Consent of PricewaterhouseCoopers LLP. E-9

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<u>Exhibit Number</u>	<u>Description</u>
24.1	Powers of Attorney (included on the signature pages hereto).
31.1	Certification of Richard A. Noll, Chief Executive Officer.
31.2	Certification of E. Lee Wyatt Jr., Chief Financial Officer.
32.1	Section 1350 Certification of Richard A. Noll, Chief Executive Officer.
32.2	Section 1350 Certification of E. Lee Wyatt Jr., Chief Financial Officer.
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 Labels Linkbase Document**
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document**
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document**

* Agreement relates to executive compensation.

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

Portions of this exhibit were redacted pursuant to a confidential treatment request filed with the Secretary of the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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HANESBRANDS INC.**

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<u>Consolidated Statements of Income for the years ended January 1, 2011, January 2, 2010 and January 3, 2009</u>	F-4
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Hanesbrands Inc.

Management's Report on Internal Control Over Financial Reporting

Management of Hanesbrands Inc. (Hanesbrands) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Securities and Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Hanesbrands system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Hanesbrands; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of Hanesbrands are being made only in accordance with authorizations of management and directors of Hanesbrands; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Hanesbrands' assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of Hanesbrands' internal control over financial reporting as of January 1, 2011, based upon criteria for effective internal control over financial reporting described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, management determined that Hanesbrands' internal control over financial reporting was effective as of January 1, 2011.

The effectiveness of our internal control over financial reporting as of January 1, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Part II, Item 8 of this Annual Report on Form 10-K.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Hanesbrands Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Hanesbrands Inc. (the Company) at January 1, 2011 and January 2, 2010, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Greensboro, North Carolina
February 15, 2011

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HANESBRANDS INC.
Consolidated Statements of Income
(in thousands, except per share amounts)

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Net sales	\$ 4,326,713	\$ 3,891,275	\$ 4,248,777
Cost of sales	2,911,944	2,626,001	2,871,427
Gross profit	1,414,769	1,265,274	1,377,350
Selling, general and administrative expenses	1,010,581	940,530	1,009,600
Restructuring		53,888	50,260
Operating profit	404,188	270,856	317,480
Other expense (income)	20,221	49,301	(63,000)
Interest expense, net	150,236	163,279	155,070
Income before income tax expense	233,731	58,276	163,030
Income tax expense	22,438	6,993	35,860
Net income	\$ 211,293	\$ 51,283	\$ 127,160
Earnings per share:			
Basic	\$ 2.19	\$ 0.54	\$ 1.30
Diluted	\$ 2.16	\$ 0.54	\$ 1.30
Weighted average shares outstanding:			
Basic	96,500	95,158	94,170
Diluted	97,774	95,668	95,160

See accompanying notes to Consolidated Financial Statements.

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HANESBRANDS INC.
Consolidated Balance Sheets
(in thousands, except share and per share amounts)

	January 1, 2011	January 2, 2010
ASSETS		
Cash and cash equivalents	\$ 43,671	\$ 38,94
Trade accounts receivable less allowances of \$19,192 at January 1, 2011 and \$25,776 at January 2, 2010	503,243	450,54
Inventories	1,322,719	1,049,20
Deferred tax assets	149,431	139,83
Other current assets	128,607	144,03
Total current assets	2,147,671	1,822,55
Property, net	631,254	602,82
Trademarks and other identifiable intangibles, net	178,622	136,21
Goodwill	430,144	322,00
Deferred tax assets	319,798	357,10
Other noncurrent assets	82,513	85,86
Total assets	\$ 3,790,002	\$ 3,326,56
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	\$ 412,369	\$ 351,97
Accrued liabilities and other:		
Payroll and employee benefits	89,303	76,31
Advertising and promotion	87,384	85,06
Restructuring	6,036	18,24
Other	93,580	116,00
Notes payable	50,678	66,68
Current portion of debt	90,000	164,68
Total current liabilities	829,350	878,97
Long-term debt	1,990,735	1,727,54
Pension and postretirement benefits	301,889	290,03
Other noncurrent liabilities	105,354	95,29
Total liabilities	3,227,328	2,991,84
Stockholders equity:		
Preferred stock (50,000,000 authorized shares; \$.01 par value) Issued and outstanding	None	None
Common stock (500,000,000 authorized shares; \$.01 par value) Issued and outstanding	96,207,025 at January 1, 2011 and 95,396,967 at January 2, 2010	95,396,967 at January 2, 2010

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Additional paid-in capital	294,829	287,95
Retained earnings	480,098	268,80
Accumulated other comprehensive loss	(213,215)	(222,99)
Total stockholders' equity	562,674	334,71
Total liabilities and stockholders' equity	\$ 3,790,002	\$ 3,326,56

See accompanying notes to Consolidated Financial Statements.

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HANESBRANDS INC.
Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss)
Years ended January 1, 2011, January 2, 2010 and January 3, 2009
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 29, 2007	95,232	\$ 954	\$ 199,019	\$ 117,849	\$ (28,918)	\$ 288,900
Net income				127,169		127,169
Translation adjustments					(29,463)	(29,463)
Net unrealized loss on qualifying cash flow hedges, net of tax of \$24,683					(38,818)	(38,818)
Net unrecognized loss from pension and postretirement plans, net of tax of \$117,012					(184,270)	(184,270)
Comprehensive loss						(125,381)
Stock-based compensation			31,002			31,002
Exercise of stock options, vesting of restricted stock units and other	456	2	10,076			10,076
Stock repurchases	(1,224)	(12)	(2,767)	(27,496)		(30,279)
Net transactions related to spin off	(944)	(9)	10,837			10,824
Balances at January 3, 2009	93,520	\$ 935	\$ 248,167	\$ 217,522	\$ (281,469)	\$ 185,155
Net income				51,283		51,283
Translation adjustments					18,966	18,966
Net unrealized gain on qualifying cash flow hedges, net of tax of \$17,639					28,580	28,580
Net unrecognized gain from pension and postretirement plans, net of tax of \$1,835					10,928	10,928

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Comprehensive income						109,75
Stock-based compensation			37,391			37,39
Exercise of stock options, vesting of restricted stock units and other	1,877	19	2,397			2,41
Balances at January 2, 2010	95,397	\$ 954	\$ 287,955	\$ 268,805	\$ (222,995)	\$ 334,71
Net income				211,293		211,29
Translation adjustments					3,661	3,66
Net unrealized gain on qualifying cash flow hedges, net of tax of \$6,773					10,189	10,18
Net unrecognized loss from pension and postretirement plans, net of tax of \$2,608					(4,070)	(4,07
Comprehensive income						221,07
Stock-based compensation			19,226			19,22
Exercise of stock options, vesting of restricted stock units and other	810	8	3,317			3,32
Net transactions related to spin off			(15,669)			(15,66
Balances at January 1, 2011	96,207	\$ 962	\$ 294,829	\$ 480,098	\$ (213,215)	\$ 562,67

See accompanying notes to Consolidated Financial Statements.

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HANESBRANDS INC.
Consolidated Statements of Cash Flows
(in thousands)

	January 1, 2011	Years Ended January 2, 2010	January 3 2009
Operating activities:			
Net income	\$ 211,293	\$ 51,283	\$ 127,16
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	74,103	84,312	103,12
Amortization of intangibles	12,509	12,443	12,01
Restructuring		8,207	5,13
Write-off on early extinguishment of debt	16,526	2,423	1,33
Gain on repurchase of Floating Rate Senior Notes		(157)	(1,96
Charges incurred for amendments of credit facilities		20,634	
Interest rate hedge termination		26,029	
Amortization of debt issuance costs	12,739	10,967	6,03
Amortization of loss on interest rate hedge	17,774		
Stock compensation expense	19,534	37,697	31,44
Deferred taxes	15,794	(9,152)	(1,44
Other	(3,432)	(10,252)	(1,61
Changes in assets and liabilities:			
Accounts receivable	(329)	(39,805)	163,68
Inventories	(231,845)	248,820	(182,97
Other assets	11,597	22,210	(49,25
Accounts payable	29,934	3,522	34,04
Accrued liabilities and other	(53,143)	(54,677)	(69,34
Net cash provided by operating activities	133,054	414,504	177,39
Investing activities:			
Purchases of property, plant and equipment	(106,240)	(126,825)	(186,95
Acquisitions of businesses, net of cash acquired	(222,878)		(14,65
Proceeds from sales of assets	45,642	37,965	25,00
Other	(519)	16	(64
Net cash used in investing activities	(283,995)	(88,844)	(177,24
Financing activities:			
Borrowings on notes payable	1,394,782	1,628,764	602,62
Repayments on notes payable	(1,411,295)	(1,624,139)	(560,06
Payments to amend and refinance credit facilities	(23,833)	(74,976)	(6
Borrowings on revolving loan facility	2,228,500	2,034,026	791,00
Repayments on revolving loan facility	(2,280,000)	(1,982,526)	(791,00
Incurrence of debt under the 2009 Senior Secured Credit Facility		750,000	
	(750,000)		

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Repayments of debt under 2009 Senior Secured Credit Facility			
Repayments of debt under 2006 Senior Secured Credit Facility		(1,440,250)	(125,000)
Issuance of 6.375% Senior Notes	1,000,000		
Issuance of 8% Senior Notes		500,000	
Repurchase of Floating Rate Senior Notes		(2,788)	(4,350)
Borrowings on Accounts Receivable Securitization Facility	207,290	183,451	20,940
Repayments on Accounts Receivable Securitization Facility	(217,290)	(326,068)	(28,320)
Proceeds from stock options exercised	5,938	1,179	2,190
Stock repurchases			(30,270)
Transaction with Sara Lee Corporation			18,000
Other	1,593	(847)	(400)
Net cash provided by (used in) financing activities	155,685	(354,174)	(104,730)
Effect of changes in foreign exchange rates on cash	(16)	115	(2,300)
Increase (decrease) in cash and cash equivalents	4,728	(28,399)	(106,890)
Cash and cash equivalents at beginning of year	38,943	67,342	174,230
Cash and cash equivalents at end of year	\$ 43,671	\$ 38,943	\$ 67,340

See accompanying notes to Consolidated Financial Statements.

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HANESBRANDS INC.

Notes to Consolidated Financial Statements

Years ended January 1, 2011, January 2, 2010 and January 3, 2009

(amounts in thousands, except per share data)

(1) Background

Hanesbrands Inc., a Maryland corporation (the Company), is a consumer goods company with a portfolio of leading apparel brands, including *Hanes*, *Champion*, *Playtex*, *Bali*, *L'eggs*, *Just My Size*, *barely there*, *Wonderbra*, *Stedman*, *Outer Banks*, *Zorba*, *Rinbros*, *Duofold* and *Gear for Sports*. The Company designs, manufactures, sources and sells a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, kids' underwear, casualwear, activewear, socks and hosiery.

The Company's fiscal year ends on the Saturday closest to December 31. All references to 2010, 2009 and 2008 relate to the 52 week fiscal years ended on January 1, 2011 and January 2, 2010, and the 53 week fiscal year ended on January 3, 2009, respectively.

(2) Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, certain financial statement disclosures at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from these estimates.

(c) Foreign Currency Translation

Foreign currency-denominated assets and liabilities are translated into U.S. dollars at exchange rates existing at the respective balance sheet dates. Translation adjustments resulting from fluctuations in exchange rates are recorded as a separate component of accumulated other comprehensive loss within stockholders' equity. The Company translates the results of operations of its foreign operations at the average exchange rates during the respective periods. Gains and losses resulting from foreign currency transactions are included in the Selling, general and administrative expenses line of the Consolidated Statements of Income.

(d) Sales Recognition and Incentives

The Company recognizes revenue when (i) there is persuasive evidence of an arrangement, (ii) the sales price is fixed or determinable, (iii) title and the risks of ownership have been transferred to the customer and (iv) collection of the receivable is reasonably assured, which occurs primarily upon shipment. The Company records a sales reduction for returns and allowances based upon historical return experience. The Company earns royalty revenues through license agreements with manufacturers of other consumer products that incorporate certain of the Company's brands. The Company accrues revenue earned under these contracts based upon reported sales from the licensee. The Company offers a variety of sales incentives to resellers and consumers of its products, and the policies regarding the recognition and display of these incentives within the Consolidated Statements of Income are as follows:

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HANESBRANDS INC.

Notes to Consolidated Financial Statements (Continued)
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(amounts in thousands, except per share data)

Discounts, Coupons, and Rebates

The Company recognizes the cost of these incentives at the later of the date at which the related sale is recognized or the date at which the incentive is offered. The cost of these incentives is estimated using a number of factors, including historical utilization and redemption rates. All cash incentives of this type are included in the determination of net sales. The Company includes incentives offered in the form of free products in the determination of cost of sales.

Volume-Based Incentives

These incentives typically involve rebates or refunds of cash that are redeemable only if the reseller completes a specified number of sales transactions. Under these incentive programs, the Company estimates the anticipated rebate to be paid and allocates a portion of the estimated cost of the rebate to each underlying sales transaction with the customer. The Company includes these amounts in the determination of net sales.

Cooperative Advertising

Under these arrangements, the Company agrees to reimburse the reseller for a portion of the costs incurred by the reseller to advertise and promote certain of the Company's products. The Company recognizes the cost of cooperative advertising programs in the period in which the advertising and promotional activity first takes place.

Fixtures and Racks

Store fixtures and racks are periodically used by resellers to display Company products. The Company expenses the cost of these fixtures and racks in the period in which they are delivered to the resellers. The Company includes the costs of fixtures and racks incurred by resellers and charged back to the Company in the determination of net sales. Fixtures and racks purchased by the Company and provided to resellers are included in selling, general and administrative expenses.

(e) Advertising Expense

Advertising costs, which include the development and production of advertising materials and the communication of these materials through various forms of media, are expensed in the period the advertising first takes place. The Company recognized advertising expense in the Selling, general and administrative expenses caption in the Consolidated Statements of Income of \$185,488, \$166,467 and \$187,034 in 2010, 2009, and 2008, respectively.

(f) Shipping and Handling Costs

Revenue received for shipping and handling costs is included in net sales and was \$22,054, \$22,434, and \$24,244 in 2010, 2009 and 2008, respectively. Shipping costs, that comprise payments to third party shippers, and handling costs, which consist of warehousing costs in the Company's various distribution facilities, were \$250,029, \$222,169 and \$238,340 in 2010, 2009 and 2008, respectively. The Company recognizes shipping, handling and distribution costs in the Selling, general and administrative expenses caption of the Consolidated Statements of Income.

(g) Catalog Expenses

The Company incurs expenses for printing catalogs for products to aid in the Company's sales efforts. The Company initially records these expenses as a prepaid item and charges it against selling, general and administrative expenses over time as the catalog is used. Expenses are recognized at a rate that approximates historical experience with regard to the timing and amount of sales attributable to a catalog distribution.

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(amounts in thousands, except per share data)

(h) Research and Development

Research and development costs are expensed as incurred and are included in the Selling, general and administrative expenses line of the Consolidated Statements of Income. Research and development expense was \$47,082, \$46,305 and \$46,460 in 2010, 2009 and 2008, respectively.

(i) Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

(j) Accounts Receivable Valuation

Accounts receivable are stated at their net realizable value. The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable portfolio determined on the basis of historical experience, aging of trade receivables, specific allowances for known troubled accounts and other currently available information.

(k) Inventory Valuation

Inventories are stated at the estimated lower of cost or market. Cost is determined by the first-in, first-out or FIFO, method for inventories. Obsolete, damaged, and excess inventory is carried at the net realizable value, which is determined by assessing historical recovery rates, current market conditions and future marketing and sales plans. Rebates, discounts and other cash consideration received from a vendor related to inventory purchases are reflected as reductions in the cost of the related inventory item, and are therefore reflected in cost of sales when the related inventory item is sold.

(l) Property

Property is stated at historical cost and depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Machinery and equipment is depreciated over periods ranging from three to 25 years and buildings and building improvements over periods of up to 40 years. A change in the depreciable life is treated as a change in accounting estimate and the accelerated depreciation is accounted for in the period of change and future periods. Additions and improvements that substantially extend the useful life of a particular asset and interest costs incurred during the construction period of major properties are capitalized. Repairs and maintenance costs are expensed as incurred. Upon sale or disposition of an asset, the cost and related accumulated depreciation are removed from the accounts.

Property is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. Such events include significant adverse changes in the business climate, several periods of operating or cash flow losses, forecasted continuing losses or a current expectation that an asset or an asset group will be disposed of before the end of its useful life. Recoverability of property is evaluated by a comparison of the carrying amount of an asset or asset group to future net undiscounted cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset exceeds the estimated fair value. When an impairment loss is recognized for assets to be held and used, the adjusted carrying amount of those assets is depreciated over its remaining useful life. Restoration of a previously recognized impairment loss is not permitted under U.S. generally accepted accounting principles.

(m) Trademarks and Other Identifiable Intangible Assets

The primary identifiable intangible assets of the Company are trademarks, license agreements, customer and distributor relationships and computer software all of which have finite lives that are subject to amortization. The estimated useful life of a finite-lived intangible asset is based upon a number of factors, including the effects of demand, competition, expected changes in distribution channels and the level of maintenance expenditures required

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(amounts in thousands, except per share data)

to obtain future cash flows. Finite-lived trademarks are being amortized over periods ranging from nine to 30 years, license agreements are being amortized over periods ranging from six to 15 years, customer and distributor relationships are being amortized over periods ranging from three to 10 years and computer software is being amortized over periods ranging from three to seven years. Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used in evaluating elements of property.

The Company capitalizes internal software development costs, which include the actual costs to purchase software from vendors and generally include personnel and related costs for employees who were directly associated with the enhancement and implementation of purchased computer software. Additions to computer software are included in purchases of property and equipment in the Consolidated Statements of Cash Flows.

(n) Goodwill

Goodwill is the amount by which the purchase price exceeds the fair value of the assets acquired and liabilities assumed in a business combination. When a business combination is completed, the assets acquired and liabilities assumed are assigned to the reporting unit or units of the Company given responsibility for managing, controlling and generating returns on these assets and liabilities. In many instances, all of the acquired assets and assumed liabilities are assigned to a single reporting unit and in these cases all of the goodwill is assigned to the same reporting unit. In those situations in which the acquired assets and liabilities are allocated to more than one reporting unit, the goodwill to be assigned to each reporting unit is determined in a manner similar to how the amount of goodwill recognized in a business combination is determined.

Goodwill is not amortized; however, it is assessed for impairment at least annually and as triggering events occur. The Company's annual measurement date is the first day of the third fiscal quarter. The first step involves comparing the fair value of a reporting unit to its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second step of the process involves comparing the implied fair value to the carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to such excess.

In evaluating the recoverability of goodwill, it is necessary to estimate the fair values of the reporting units. In making this assessment, management relies on a number of factors to discount anticipated future cash flows including operating results, business plans and present value techniques. Rates used to discount cash flows are dependent upon interest rates and the cost of capital at a point in time. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment.

(o) Stock-Based Compensation

The Company established the Hanesbrands Inc. Omnibus Incentive Plan of 2006, (the "Hanesbrands Omnibus Plan") to award stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, performance shares and cash to its employees, non-employee directors and employees of its subsidiaries to promote the interests of the Company and incentive performance and retention of employees. The Company recognizes the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards.

(p) Income Taxes

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Given continuing losses in certain jurisdictions in which the Company operates on a separate return basis, a valuation allowance has been established for the deferred tax assets in these specific locations. The Company

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periodically estimates the probable tax obligations using historical experience in tax jurisdictions and informed judgment. There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which the Company transacts business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as

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Table of Contents**HANESBRANDS INC.****Notes to Consolidated Financial Statements (Continued)**
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well as changes to, or further interpretations of, regulations. Income tax expense is adjusted in the period in which these events occur, and these adjustments are included in the Company's Consolidated Statements of Income. If such changes take place, there is a risk that the Company's effective tax rate may increase or decrease in any period. A company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

(q) Financial Instruments

The Company uses financial instruments, including forward exchange, option and swap contracts, to manage its exposures to movements in interest rates, foreign exchange rates and commodity prices. The use of these financial instruments modifies the exposure to these risks with the intent to reduce 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 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. The Company also formally assesses, both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions 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 Selling, general and administrative expenses line of the Consolidated Statements of Income.

Derivatives are recorded in the Consolidated Balance Sheets at fair value in other assets and other liabilities. The fair value is based upon either market quotes for actively traded instruments or independent bids for nonexchange traded instruments.

On the date the derivative is entered into, the Company designates the type of 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.

Mark to Market Hedge

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. For derivatives designated as mark to market hedges, changes in fair value are reported in earnings in the Selling, general and administrative expenses line of the Consolidated Statements of Income. Forward exchange 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.

Cash Flow Hedge

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 Consolidated Balance Sheets. When the hedged item affects the income statement, the gain or loss included in accumulated other comprehensive income (loss) is reported on the same line in the Consolidated Statements of Income as the hedged item. In addition, both the fair value of changes excluded from the Company's effectiveness assessments and the ineffective portion of the change in the fair value of derivatives used as cash flow hedges are reported in the Selling, general and administrative

expenses line in the Consolidated Statements of Income.

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Years ended January 1, 2011, January 2, 2010 and January 3, 2009**(amounts in thousands, except per share data)*****(r) Recently Issued Accounting Pronouncements****Accounting for Transfers of Financial Assets*

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting rules for transfers of financial assets. The new rules require greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with them and changes the requirements for derecognizing financial assets. The new accounting rules were effective for financial asset transfers occurring in 2010. The adoption of these new rules had no impact on the financial condition, results of operations or cash flows of the Company.

Consolidation - Variable Interest Entities

In June 2009, the FASB issued new accounting rules related to the accounting and disclosure requirements for the consolidation of variable interest entities. The new accounting rules were effective for the Company in 2010. The adoption of these new rules had no material impact on the financial condition, results of operations or cash flows of the Company.

Fair Value Disclosures

In January 2010, the FASB issued new accounting rules related to the disclosure requirements for fair value measurements. The new accounting rules require new disclosures regarding significant transfers between Levels 1 and 2 of the fair value hierarchy and the activity within Level 3 of the fair value hierarchy. The new accounting rules also clarify existing disclosures regarding the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The new accounting rules were effective for the Company in the first quarter of 2010, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the disclosures effective for the Company's first quarter of 2010 did not have a material impact on the Company's financial condition, results of operations or cash flows but resulted in certain additional disclosures reflected in Note 14.

(3) Earnings Per Share

Basic earnings per share (EPS) was computed by dividing net income by the number of weighted average shares of common stock outstanding during the period. 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 2010, 2009, and 2008 is as follows:

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Basic weighted average shares outstanding	96,500	95,158	94,177
Effect of potentially dilutive securities:			
Stock options	783		10
Restricted stock units	489	510	88
Employee stock purchase plan and other	2		1
Diluted weighted average shares outstanding	97,774	95,668	95,166

Options to purchase 827, 6,273, and 3,735 shares of common stock and 250, 234, and 0 restricted stock units were excluded from the diluted earnings per share calculation because their effect would be

anti-dilutive for 2010, 2009, and 2008, respectively.

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HANESBRANDS INC.
Notes to Consolidated Financial Statements (Continued)
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(4) Stock-Based Compensation

The Company established the Hanesbrands OIP to award stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, performance shares and cash to its employees, non-employee directors and employees of its subsidiaries to promote the interests of the Company and incentive performance and retention of employees.

Stock Options

The exercise price of each stock option equals the closing market price of Hanesbrands stock on the date of grant. Options granted to date generally vest ratably over two to three years, although stock options granted to employees after December 1, 2010 will generally not fully vest over a period of less than three years, and can generally be exercised over a term of 10 years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following table illustrates the assumptions for the Black-Scholes option-pricing model used in determining the fair value of options granted during 2010, 2009, and 2008, respectively.

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Dividend yield	%	%	
Risk-free interest rate	1.64-1.90%	2.49%	1.68-2.64%
Volatility	50-54%	48%	28-37%
Expected term (years)	5.3-6.0	6.0	3.8-6.0

The dividend yield assumption is based on the Company's current intent not to pay dividends. The Company uses a combination of the volatility of the Company and the volatility of peer companies for a period of time that is comparable to the expected life of the option to determine volatility assumptions due to the limited trading history of the Company's common stock. The Company utilizes the simplified method outlined in SEC accounting rules to estimate expected lives for options granted. The simplified method is used for valuing stock option grants by eligible public companies that do not have sufficient historical exercise patterns on options granted to employees.

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HANESBRANDS INC.
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A summary of the changes in stock options outstanding to the Company's employees under the Hanesbrands OIP is presented below:

	Shares	Weighted- Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Options outstanding at December 29, 2007	3,645	\$ 23.41	\$ 16,369	5.4
Granted	2,624	19.81		
Exercised	(98)	22.50		
Forfeited	(142)	23.35		
Options outstanding at January 3, 2009	6,029	\$ 21.86	\$	5.9
Granted	466	24.33		
Exercised	(66)	17.71		
Forfeited	(142)	21.32		
Options outstanding at January 2, 2010	6,287	\$ 22.10	\$ 15,770	7.7
Granted	221	27.16		
Exercised	(289)	20.51		
Forfeited	(1)	22.37		
Options outstanding at January 1, 2011	6,218	\$ 22.35	\$ 19,914	6.5
Options exercisable at January 1, 2011	4,824	\$ 22.46	\$ 14,741	6.5

During 2008, after consultation with its compensation consultants, the Compensation Committee of the Company's Board of Directors (the Compensation Committee) determined to make decisions regarding compensation for executive officers at its meeting in December 2008, so that such decisions could be made prior to the January 1, 2009 effective date for any changes in total compensation opportunities rather than retroactively, and to approve equity grants simultaneously with those decisions. Regarding 2008 compensation, the Compensation Committee made decisions and approved equity grants at its meeting in January 2008. Therefore, two equity awards, including awards of stock options, were made to executive officers and other employees during 2008.

There were 2,133, 2,981 and 968 options that vested during 2010, 2009 and 2008, respectively. The total intrinsic value of options that were exercised during 2010, 2009 and 2008 was \$1,923, \$465 and \$1,057, respectively. The weighted average fair value of individual options granted during 2010, 2009 and 2008 was \$13.32, \$11.80 and \$6.29, respectively.

Cash received from option exercises under all share-based payment arrangements for 2010, 2009 and 2008 was \$5,938, \$1,179 and \$2,191, respectively. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$1,705, \$465 and \$806 for 2010, 2009 and 2008, respectively.

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Stock Unit Awards

Restricted stock units (RSUs) of Hanesbrands stock are granted to certain Company employees and non-employee directors to incent performance and retention over periods ranging from one to three years, although RSUs granted to employees after December 1, 2010 will generally not fully vest over a period of less than three years. Upon vesting, the RSUs are converted into shares of the Company's common stock on a one-for-one basis and issued to the grantees. Some RSUs which have been granted under the Hanesbrands OIP vest upon continued future service to the Company, while others also have a performance based vesting feature. The cost of these awards is determined using the fair value of the shares on the date of grant, and compensation expense is recognized over the period during which the grantees provide the requisite service to the Company. A summary of the changes in the restricted stock unit awards outstanding under the Hanesbrands OIP is presented below:

	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Nonvested share units outstanding at December 29, 2007	1,578	\$ 23.47	\$ 43,922	1.8
Granted non-performance based	1,512	18.19		
Vested	(583)	23.28		
Forfeited	(105)	23.69		
Nonvested share units outstanding at January 3, 2009	2,402	\$ 20.19	\$ 31,652	1.8
Granted non-performance based	408	24.29		
Vested	(1,193)	20.84		
Forfeited	(91)	19.57		
Nonvested share units outstanding at January 2, 2010	1,526	\$ 20.82	\$ 36,796	1.7
Granted non-performance based	391	27.02		
Granted performance based	143	27.16		
Vested	(721)	21.28		
Forfeited	(9)	19.21		
Nonvested share units outstanding at January 1, 2011	1,330	\$ 23.08	\$ 33,794	1.7

During 2008, after consultation with its compensation consultants, the Compensation Committee determined to make decisions regarding 2009 compensation for executive officers at its meeting in December 2008, so that such decisions could be made prior to the January 1, 2009 effective date for any

changes in total compensation opportunities rather than retroactively, and to approve equity grants simultaneously with those decisions. Regarding 2008 compensation, the Compensation Committee made decisions and approved equity grants at its meeting in January 2008. Therefore, two equity awards, including awards of restricted stock units, were made to executive officers and other employees during 2008.

The total fair value of shares vested during 2010, 2009 and 2008 was \$15,346, \$24,871 and \$13,560, respectively. Certain participants elected to defer receipt of shares earned upon vesting. As of January 1, 2011, a total of 203 shares of common stock are issuable in future years for such deferrals.

For all share-based payments under the Hanesbrands OIP, during 2010, 2009 and 2008, the Company recognized total compensation expense of \$19,226, \$37,391 and \$31,002 and recognized a deferred tax benefit of \$7,435, \$14,464 and \$11,585, respectively. During 2009, the Company incurred \$1,814 related to amending the terms of all outstanding stock options granted under the Hanesbrands OIP that had an original term of five or seven years to the tenth anniversary of the original grant date.

At January 1, 2011, there was \$10,135 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements, of which \$7,276, \$2,237 and \$622 is expected to be recognized in 2011, 2012

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and 2013, respectively. The Company satisfies the requirement for common shares for share-based payments to employees pursuant to the Hanesbrands OIP by issuing newly authorized shares. The Hanesbrands OIP authorized 13,105 shares for awards of stock options and restricted stock units, of which 1,945 were available for future grants as of January 1, 2011.

In 2010, in addition to granting RSUs that vest solely upon continued future service to the Company, the Company also granted 143 performance-based restricted stock units with a performance feature that has a target range of 0% to 200% based upon meeting certain performance thresholds. These performance stock awards, which are included in the table above, represent unearned awards that are earned based on future performance and service.

Employee Stock Purchase Plan

The Company established the Hanesbrands Inc. Employee Stock Purchase Plan of 2006 (the ESPP), which is qualified under Section 423 of the Internal Revenue Code. An aggregate of up to 2,442 shares of Hanesbrands common stock may be purchased by eligible employees pursuant to the ESPP. The purchase price for shares under the ESPP is equal to 85% of the stock's fair market value on the purchase date. During 2010, 2009 and 2008, 79, 156 and 129 shares, respectively, were purchased under the ESPP by eligible employees. The Company had 2,000 shares of common stock available for issuance under the ESPP as of January 1, 2011. The Company recognized \$308, \$306 and \$447 of stock compensation expense under the ESPP during 2010, 2009 and 2008, respectively.

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

The changes in the Company's allowance for doubtful accounts and allowance for chargebacks and other deductions are as follows:

	Allowance for Doubtful Accounts	Allowance for Chargebacks and Other Deductions	Total
Balance at December 29, 2007	\$ 9,328	\$ 22,314	\$ 31,642
Charged to expenses	8,074	5,366	13,440
Deductions and write-offs	(4,847)	(18,338)	(23,185)
Balance at January 3, 2009	12,555	9,342	21,897
Charged to expenses	3,647	5,724	9,371
Deductions and write-offs	(700)	(4,792)	(5,492)
Balance at January 2, 2010	15,502	10,274	25,776
Charged to expenses	(1,116)	3,715	2,599
Deductions and write-offs	(3,270)	(5,913)	(9,183)
Balance at January 1, 2011	\$ 11,116	\$ 8,076	\$ 19,192

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Charges to the allowance for doubtful accounts are reflected in the Selling, general and administrative expenses line and charges to the allowance for customer chargebacks and other customer deductions are primarily reflected as a reduction in the Net sales line of the Consolidated Statements of Income. Deduct and write-offs, which do not increase or decrease income, represent write-offs of previously reserved accounts receivable and allowed customer chargebacks and deductions against gross accounts receivable.

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Years ended January 1, 2011, January 2, 2010 and January 3, 2009**(amounts in thousands, except per share data)*****Sales of Accounts Receivable***

The Company has entered into agreements to sell selected trade accounts receivable to financial institutions. After the sale, the Company does not retain any interests in the receivables and the applicable financial institution services and collects these accounts receivable directly from the customer. Net proceeds of these accounts receivable sale programs are recognized in the Consolidated Statements of Cash Flows as part of operating cash flows. The Company recognized funding fees of \$3,464 and \$163 in 2010 and 2009, respectively, for sales of accounts receivable to financial institutions in the Other expenses line in the Consolidated Statements of Income.

(6) Inventories

Inventories consisted of the following:

	January 1, 2011	January 2, 2010
Raw materials	\$ 155,744	\$ 106,13
Work in process	109,304	100,68
Finished goods	1,057,671	842,38
	\$ 1,322,719	\$ 1,049,20

(7) Property, Net

Property is summarized as follows:

	January 1, 2011	January 2, 2010
Land	\$ 26,122	\$ 28,54
Buildings and improvements	467,378	478,14
Machinery and equipment	868,995	895,33
Construction in progress	31,904	28,97
Capital leases	6,988	4,01
	1,401,387	1,435,01
Less accumulated depreciation	770,133	832,19
Property, net	\$ 631,254	\$ 602,82

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(8) Notes Payable

The Company had the following short-term obligations at January 1, 2011 and January 2, 2010:

	Interest Rate as of January 1, 2011	Principal Amount January 1, 2011	January 2, 2010
Short-term revolving facility in El Salvador	4.20%	\$ 29,700	\$ 30,000
Short-term revolving facility in China	7.65%	12,941	7,390
Short-term revolving facility in Vietnam	5.05%	3,371	
Short-term revolving facility in Japan	4.61%	2,459	
Short-term revolving facility in India	12.80%	1,846	
Short-term revolving facility in Brazil	13.56%	361	
Short-term revolving facility in Luxembourg			25,000
Short-term revolving facility in Thailand			4,280
		\$ 50,678	\$ 66,680

The Company has a short-term revolving facility arrangement with a Salvadoran branch of a Canadian bank amounting to \$30,000 of which \$29,700 was outstanding at January 1, 2011 which accrues interest at 4.20%.

The Company has a short-term revolving facility arrangement with a Chinese branch of a U.S. bank amounting to RMB 155 million (\$23,460) of which \$12,941 was outstanding at January 1, 2011 which accrues interest at 7.65%. Borrowings under the facility accrue interest at the prevailing base lending rates published by the People's Bank of China from time to time plus 50%.

The Company has a short-term revolving facility arrangement with a Vietnamese branch of a U.S. bank amounting to \$14,000 of which \$3,371 was outstanding at January 1, 2011 which accrues interest at 5.05%.

The Company has a short-term revolving facility arrangement with a Japanese branch of a U.S. bank amounting to JPY 800 million (\$9,812) of which \$2,459 was outstanding at January 1, 2011 which accrues interest at 4.61%.

The Company has a short-term revolving facility arrangement with an Indian branch of a U.S. bank amounting to INR 100 million (\$2,224) of which \$1,846 was outstanding at January 1, 2011 which accrues interest at 12.80%.

The Company has a short-term revolving facility arrangement with a Brazilian bank amounting to BRL 2 million (\$1,205) of which \$361 was outstanding at January 1, 2011 which accrues interest at 13.56%.

In addition, the Company has short-term revolving credit facilities in various other locations that can be drawn on from time to time amounting to \$4,646 of which \$0 was outstanding at January 1, 2011.

As of January 1, 2011 and January 2, 2010, the Company had total borrowing availability of \$34,669 and \$34,935, respectively, under these international loan facilities.

The Company was in compliance with the financial covenants contained in each of these facilities at January 1, 2011.

Total interest paid on notes payable was \$2,267, \$3,974 and \$2,208 in 2010, 2009 and 2008, respectively.

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(9) Debt

The Company had the following debt at January 1, 2011 and January 2, 2010:

	Interest Rate as of January 1, 2011	Principal Amount		Maturity Date
		January 1, 2011	January 2, 2010	
2009 Senior Secured Credit Facility: Term Loan Facility		\$	\$ 750,000	Decemb 2013
Revolving Loan Facility	6.75%		51,500	Decemb 2020
6.375% Senior Notes	6.38%	1,000,000		Decemb 2016
8% Senior Notes	8.00%	500,000	500,000	Decemb 2014
Floating Rate Senior Notes	3.83%	490,735	490,735	March 2011
Accounts Receivable Securitization Facility	2.81%	90,000	100,000	
		2,080,735	1,892,235	
Less current maturities		90,000	164,688	
		\$ 1,990,735	\$ 1,727,547	

The Company's primary financing arrangements are the senior secured credit facility that it entered into in 2006 (the 2006 Senior Secured Credit Facility) and amended and restated in December 2009 to provide for a new senior secured credit facility (the 2009 Senior Secured Credit Facility), \$500,000 in aggregate principal amount of floating rate senior notes (the Floating Rate Senior Notes) issued in December 2006, \$500,000 in aggregate principal amount of 8.000% senior notes (the 8% Senior Notes) issued in December 2009, \$1,000,000 in aggregate principal amount of 6.375% senior notes (the 6.375% Senior Notes) issued in November 2010 and the Accounts Receivable Securitization Facility. The outstanding balances at January 1, 2011 are reported in the Long-term debt and Current portion of debt lines of the Consolidated Balance Sheets.

Total cash paid for interest related to debt in 2010, 2009 and 2008 was \$116,492, \$161,854 and \$150,899, respectively.

2009 Senior Secured Credit Facility

The 2009 Senior Secured Credit Facility initially provides for aggregate borrowings of \$1,150,000, consisting of a \$750,000 term loan facility (the Term Loan Facility) and a \$400,000 revolving loan facility (the Revolving Loan Facility). The proceeds of the Term Loan Facility were used to refinance all amounts outstanding under the Term A loan facility (in an initial principal amount of \$250,000) and Term B loan facility (in an initial principal amount of \$1,400,000) under the 2006 Senior Secured Credit Facility and to repay all amounts outstanding under the second lien credit facility that the Company entered into in 2006 (the

Second Lien Credit Facility). Proceeds of the Revolving Loan Facility were used to pay fees and expenses

connection with these transactions, and are used for general corporate purposes and working capital needs.

A portion of the Revolving Loan Facility is available for the issuances of letters of credit and the making of swingline loans, and any such issuance of letters of credit or making of a swingline loan will reduce the amount available under the Revolving Loan Facility. At the Company's option, it may add one or more term loan facilities or increase the commitments under the Revolving Loan Facility in an aggregate amount of up to \$300,000 so long as certain conditions are satisfied, including, among others, that no default or event of default is in existence and that the Company is in pro forma compliance with the financial covenants described below. In order to support its working capital needs and fund the acquisition of GearCo, Inc., known as Gear for Sports, in September 2010, the Company increased the commitments under the Revolving Loan Facility from \$400,000 to \$600,000. In November 2010, the Company used proceeds from the issuance of the 6.375% Senior Notes to repay all outstanding borrowings under the Term Loan Facility and to reduce the outstanding borrowings under the Revolving Loan Facility. As of January 1, 2011,

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the Company had \$0 outstanding under the Revolving Loan Facility, \$12,305 of standby and trade letters of credit issued and outstanding under this facility and \$587,695 of borrowing availability. At January 1, 2011 the interest rate on the Revolving Loan Facility was 6.75%.

The 2009 Senior Secured Credit Facility is guaranteed by substantially all of the Company's existing and future direct and indirect U.S. subsidiaries, with certain customary or agreed-upon exceptions for certain subsidiaries. The Company and each of the guarantors under the 2009 Senior Secured Credit Facility have granted the lenders under the 2009 Senior Secured Credit Facility a valid and perfected first priority (subject to certain customary exceptions) lien and security interest in the following:

the equity interests of substantially all of the Company's direct and indirect U.S. subsidiaries and 65% of the voting securities of certain first tier foreign subsidiaries; and
substantially all present and future property and assets, real and personal, tangible and intangible, of the Company and each guarantor, except for certain enumerated interests, and all proceeds and products of such property and assets.

The Revolving Loan Facility matures on December 10, 2013. All borrowings under the Revolving Loan Facility must be repaid in full upon maturity. Outstanding borrowings under the 2009 Senior Secured Credit Facility are prepayable without penalty.

At the Company's option, borrowings under the 2009 Senior Secured Credit Facility may be maintained from time to time as (a) Base Rate loans, which shall bear interest at the highest of (i) 1/2 of 1% in excess of the federal funds rate, (ii) the rate publicly announced by JPMorgan Chase Bank as its prime rate at its principal office in New York City, in effect from time to time and (iii) the LIBO Rate (as defined in the 2009 Senior Secured Credit Facility and adjusted for maximum reserves) for LIBOR-based loans with a one-month interest period plus 1.0%, in effect from time to time, in each case plus the applicable margin, or (b) LIBOR-based loans, which shall bear interest at the higher of (i) LIBO Rate (as defined in the 2009 Senior Secured Credit Facility and adjusted for maximum reserves), as determined by reference to the rate for deposits in dollars appearing on the Reuters Screen LIBOR01 Page for the respective interest period or other commercially available source designated by the administrative agent, and (ii) 2.00%, plus the applicable margin in effect from time to time. The applicable margin is determined by reference to a leverage-based pricing grid set forth in the 2009 Senior Secured Credit Facility. The applicable margin ranges from a maximum of 4.75% in the case of LIBOR-based loans and 3.75% in the case of Base Rate loans if the Company's leverage ratio is greater than or equal to 4.00 to 1, and will step down in 0.25% increments to a minimum of 4.00% in the case of LIBOR-based loans and 3.00% in the case of Base Rate loans if the Company's leverage ratio is less than 2.50 to 1.

The 2009 Senior Secured Credit Facility requires the Company to comply with customary affirmative, negative and financial covenants. The 2009 Senior Secured Credit Facility requires that the Company maintain a minimum interest coverage ratio and a maximum total debt to EBITDA (earnings before income taxes, depreciation expense and amortization, as computed pursuant to the 2009 Senior Secured Credit Facility), or leverage ratio. The interest coverage ratio covenant requires that the ratio of the Company's EBITDA for the preceding four fiscal quarters to its consolidated total interest expense for such period shall not be less than a specified ratio for each fiscal quarter beginning with the fourth fiscal quarter of 2009. This ratio was 2.50 to 1 for the fourth fiscal quarter of 2009 and increases over time until it reaches 3.25 to 1 for the third fiscal quarter of 2011 and thereafter. The leverage ratio covenant requires that the ratio of the Company's total debt to EBITDA for the preceding four fiscal quarters will not be more than a specified ratio for each fiscal quarter beginning with the fourth fiscal quarter of 2009. This ratio was 4.50 to 1 for the fourth fiscal quarter of 2009 and declines over time until it reaches 3.75 to 1 for the second fiscal quarter of 2011 and thereafter. The method of calculating all of the components used in the covenants is included in the 2009

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The 2009 Senior Secured Credit Facility contains customary events of default, including nonpayment of principal when due; nonpayment of interest, fees or other amounts after stated grace period; material inaccuracy of representations and warranties; violations of covenants; certain bankruptcies and liquidations any cross-default to material indebtedness; certain material judgments; certain events related to the Employee Retirement Income Security Act of 1974, as amended (ERISA), actual or asserted invalidity of any guarantee, security document or subordination provision or non-perfection of security interest, and a change in control (as defined in the 2009 Senior Secured Credit Facility). As of January 1, 2011, the Company was in compliance with all financial covenants.

6.375% Senior Notes

On November 9, 2010, the Company issued \$1,000,000 aggregate principal amount of the 6.375% Senior Notes. The 6.375% Senior Notes are senior unsecured obligations that rank equal in right of payment with all of the Company's existing and future unsubordinated indebtedness. The 6.375% Senior Notes bear interest at an annual rate equal to 6.375%. Interest is payable on the 6.375% Senior Notes on June 15 and December 15 of each year. The 6.375% Senior Notes will mature on December 15, 2020. The net proceeds from the sale of the 6.375% Senior Notes were approximately \$979,000. As noted above, these proceeds were used to repay all outstanding borrowings under the Term Loan Facility and reduce the outstanding borrowings under the Revolving Loan Facility and to pay fees and expenses relating to these transactions. The 6.375% Senior Notes are guaranteed by substantially all of the Company's domestic subsidiaries.

The Company may redeem some or all of the notes prior to December 15, 2015 at a redemption price equal to 100% of the principal amount of the 6.375% Senior Notes redeemed plus an applicable premium. The Company may redeem some or all of the 6.375% Senior Notes at any time on or after December 15, 2015 at a redemption price equal to the principal amount of the 6.375% Senior Notes plus a premium of 3.188% if redeemed during the 12-month period commencing on December 15, 2015, 2.125% if redeemed during the 12-month period commencing on December 15, 2016, 1.062% if redeemed during the 12-month period commencing on December 15, 2017 and no premium if redeemed after December 15, 2018, as well as any accrued and unpaid interest as of the redemption date. In addition, at any time prior to December 15, 2013, the Company may redeem up to 35% of the aggregate principal amount of the 6.375% Senior Notes at a redemption price of 106.375% of the principal amount of the 6.375% Senior Notes redeemed with the net cash proceeds of certain equity offerings.

The indenture governing the 6.375% Senior Notes contains customary events of default which include (subject in certain cases to customary grace and cure periods), among others, nonpayment of principal or interest; breach of other agreements in such indenture; failure to pay certain other indebtedness; failure to pay certain final judgments; failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency.

8% Senior Notes

On December 10, 2009, the Company issued \$500,000 aggregate principal amount of the 8% Senior Notes. The 8% Senior Notes are senior unsecured obligations that rank equal in right of payment with all of the Company's existing and future unsubordinated indebtedness. The 8% Senior Notes bear interest at an annual rate equal to 8%. Interest is payable on the 8% Senior Notes on June 15 and December 15 of each year. The 8% Senior Notes will mature on December 15, 2016. The net proceeds from the sale of the 8% Senior Notes were approximately \$480,000. As noted above, these proceeds, together with the proceeds from borrowings under the 2009 Senior Secured Credit Facility, were used to refinance borrowings under the 2009 Senior Secured Credit Facility, to repay all borrowings under the Second Lien Credit Facility and to pay fees and expenses relating to these transactions. The 8% Senior Notes are guaranteed by substantially all of the Company's domestic subsidiaries.

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The Company may redeem some or all of the notes prior to December 15, 2013 at a redemption price equal to 100% of the principal amount of 8% Senior Notes redeemed plus an applicable premium. The Company may redeem some or all of the 8% Senior Notes at any time on or after December 15, 2013 at a redemption price equal to

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the principal amount of the 8% Senior Notes plus a premium of 4% if redeemed during the 12-month period commencing on December 15, 2013, 2% if redeemed during the 12-month period commencing on December 15, 2014 and no premium if redeemed after December 15, 2015, as well as any accrued and unpaid interest as of the redemption date. In addition, at any time prior to December 15, 2012, the Company may redeem up to 35% of the aggregate principal amount of the 8% Senior Notes at a redemption price of 108% of the principal amount of the 8% Senior Notes redeemed with the net cash proceeds of certain equity offerings.

The indenture governing the 8% Senior Notes contains customary events of default which include (subject in certain cases to customary grace and cure periods), among others, nonpayment of principal or interest; breach of other agreements in such indenture; failure to pay certain other indebtedness; failure to pay certain final judgments; failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency.

Floating Rate Senior Notes

On December 14, 2006, the Company issued \$500,000 aggregate principal amount of the Floating Rate Senior Notes. The Floating Rate Senior Notes are senior unsecured obligations that rank equal in right of payment with all of the Company's existing and future unsubordinated indebtedness. The Floating Rate Senior Notes bear interest at an annual rate, reset semi-annually, equal to the London Interbank Offered Rate or LIBOR, plus 3.375%. Interest is payable on the Floating Rate Senior Notes on June 15 and December 15 of each year. The Floating Rate Senior Notes will mature on December 15, 2014. The net proceeds from the sale of the Floating Rate Senior Notes were approximately \$492,000. These proceeds, together with working capital, were used to repay in full the \$500,000 outstanding under the Bridge Loan Facility. The Floating Rate Senior Notes are guaranteed by substantially all of the Company's domestic subsidiaries. The Company may redeem some or all of the Floating Rate Senior Notes at any time on or after December 15, 2008 at a redemption price equal to the principal amount of the Floating Rate Senior Notes plus a premium of 2% if redeemed during the 12-month period commencing on December 15, 2008, 1% if redeemed during the 12-month period commencing on December 15, 2009 and no premium if redeemed after December 15, 2010 as well as any accrued and unpaid interest as of the redemption date.

The indenture governing the Floating Rate Senior Notes contains customary events of default which include (subject in certain cases to customary grace and cure periods), among others, nonpayment of principal or interest; breach of other agreements in such indenture; failure to pay certain other indebtedness; failure to pay certain final judgments; failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency.

The Company repurchased \$2,945 of the Floating Rate Senior Notes for \$2,788 resulting in a gain of \$1,157 in 2009. The Company repurchased \$6,320 of the Floating Rate Senior Notes for \$4,354 resulting in a gain of \$1,966 in 2008.

Accounts Receivable Securitization Facility

On November 27, 2007, the Company entered into the Accounts Receivable Securitization Facility, which the Company subsequently amended several times. The description of the Accounts Receivable Securitization Facility below gives effect to all amendments to date. The Accounts Receivable Securitization Facility initially provided for up to \$250,000 in funding accounted for as a secured borrowing, limited to the availability of eligible receivables, and is secured by certain domestic trade receivables. Effective February 2010, the Company elected to reduce the amount of funding available under the Accounts Receivable Securitization Facility from \$250,000 to \$150,000. Under the terms of the Accounts Receivable Securitization Facility, the Company and certain of its subsidiaries sell, on a revolving basis, certain domestic trade receivables to HBI Receivables LLC ("Receivables LLC"), a wholly-owned bankruptcy-remote

subsidiary that in turn uses the trade receivables to secure the borrowings, which are funded through conduits that issue commercial paper in the short-term market and are not affiliated with the Company or through committed bank purchasers if the conduits fail to fund. The assets and liabilities of Receivables LLC are fully reflected on the Consolidated Balance Sheet, and the securitization is treated as a secured borrowing for accounting purposes. The borrowings under the Accounts Receivable Securitization Facility remain outstanding throughout the term of the agreement subject to the Company maintaining sufficient eligible receivables, by

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continuing to sell trade receivables to Receivables LLC, unless an event of default occurs. Unless the term is extended, the Accounts Receivable Securitization Facility will terminate on March 31, 2011.

Availability of funding under the Accounts Receivable Securitization Facility depends primarily upon the eligible outstanding receivables balance. As of January 1, 2011, the Company had \$90 million outstanding under the Accounts Receivable Securitization Facility. The outstanding balance under the Accounts Receivable Securitization Facility is reported on the Consolidated Balance Sheet in the line Current portion of debt. Unless the conduits fail to fund, the yield on the commercial paper, which is the conduits' cost to issue the commercial paper plus certain dealer fees, is considered a financing cost and is included in interest expense on the Consolidated Statement of Income. If the conduits fail to fund, the Accounts Receivable Securitization Facility would be funded through committed bank purchasers, and the interest rate payable at the Company's option at the rate announced from time to time by HSBC Bank USA, N.A. as its prime rate at the LIBO Rate (as defined in the Accounts Receivable Securitization Facility) plus the applicable margin in effect from time to time. In addition, Receivables LLC is required to make certain payments to a conduit purchaser, a committed purchaser, or certain entities that provide funding to or are affiliated with them, in the event that assets and liabilities of a conduit purchaser are consolidated for financial and/or regulatory accounting purposes with certain other entities. The average blended interest rate for the outstanding balance as of January 1, 2011 was 2.81%.

The Accounts Receivable Securitization Facility contains customary events of default and requires the Company to maintain the same interest coverage ratio and leverage ratio contained from time to time in the 2009 Senior Secured Credit Facility, provided that any changes to such covenants will only be applicable for purposes of the Accounts Receivable Securitization Facility if approved by the Managing Agents or their affiliates. As of January 1, 2011, the Company was in compliance with all financial covenants.

The total amount of receivables used as collateral for the credit facility was \$305,978 at January 1, 2011 and is reported on the Company's Consolidated Balance Sheet in trade accounts receivable less allowances.

Future Principal Payments

Future principal payments for all of the facilities described above are as follows: \$90,000 due in 2011, \$0 due in 2012, \$0 due in 2013, \$490,735 due in 2014, \$0 due in 2015 and \$1,500,000 thereafter.

Debt Issuance Costs

The Company incurred \$23,833 in capitalized debt issuance costs in connection with increasing the borrowing availability under the Revolving Loan Facility and issuing the 6.375% Senior Notes in 2010. In 2009, the Company incurred \$54,342 in capitalized debt issuance costs in connection with entering into the 2009 Senior Secured Credit Facility and the amendments to the 2006 Senior Secured Credit Facility and the Accounts Receivable Securitization Facility. The Company incurred \$69 in debt issuance costs in connection with entering into the amendments to the 2006 Senior Secured Credit Facility and the Accounts Receivable Securitization Facility in 2008. Debt issuance costs are amortized to interest expense over the respective lives of the debt instruments, which range from one to ten years. As of January 1, 2011, the net carrying value of unamortized debt issuance costs was \$60,296 which is included in other noncurrent assets in the Consolidated Balance Sheet. The Company's debt issuance cost amortization was \$12,739, \$10,967 and \$6,032 in 2010, 2009 and 2008, respectively.

In 2010, the Company recognized charges of \$14,186 in the Other expenses line of the Consolidated Statements of Income, which represents certain costs related to the issuance of the 6.375% Senior Notes. The Company recognized \$1,654 of a write-off on early extinguishment of debt in 2010 related to the prepayment of \$57,188 on the 2009 Senior Secured Credit Facility and \$686 of write-off on early extinguishment of debt on the Accounts Receivable Securitization Facility as a result of the reduction in borrowing capacity. The Company also recognized \$231 in additional charges in 2010 related to the amendments of credit facilities.

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In 2009, the Company recognized charges of \$20,634 in the Other expenses line of the Consolidated Statements of Income, which represents certain costs related to entering into the 2009 Senior Secured Credit Facility and the amendments to the 2006 Senior Secured Credit Facility and the Accounts Receivable Securitization Facility. The Company recognized \$2,423 of losses on early extinguishment of debt in 2009 related to the prepayment of \$140,250 on the 2006 Senior Secured Credit Facility. The Company recognized \$1,332 of losses on early extinguishment of debt in 2008 which was comprised of a loss of \$1,269 related to the prepayment of \$125,000 on the 2006 Senior Secured Credit Facility and \$63 related to the repurchase of \$6,320 of Floating Rate Senior Notes.

(10) Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

	Cumulative Translation Adjustment	Net Unrealized Income (Loss) on Cash Flow Hedges	Pension and Postretirement	Income Taxes	Accumulated Other Comprehensive Loss
Balance at January 3, 2009	\$ (20,233)	\$ (81,395)	\$ (345,449)	\$ 165,608	\$ (281,466)
Other comprehensive income (loss) activity	18,966	46,219	12,763	(19,474)	58,474
Balance at January 2, 2010	(1,267)	(35,176)	(332,686)	146,134	(222,995)
Other comprehensive income (loss) activity	3,661	16,962	(6,678)	(4,165)	9,780
Balance at January 1, 2011	\$ 2,394	\$ (18,214)	\$ (339,364)	\$ 141,969	\$ (213,215)

(11) Commitments and Contingencies

The Company is a party to various pending legal proceedings, claims and environmental actions by government agencies. In accordance with the accounting rules for contingencies, the Company records a provision with respect to a claim, suit, investigation, or proceeding when it is probable that a liability has been incurred and the amount of the loss can reasonably be estimated. Any provisions are reviewed at least quarterly and are adjusted to reflect the impact and status of settlements, rulings, advice of counsel and other information pertinent to the particular matter. The recorded liabilities for these items were not material to the consolidated financial statements of the Company in any of the years presented. Although the outcome of such items cannot be determined with certainty, the Company's legal counsel and management are of the opinion that the final outcome of these matters will not have a material adverse impact on the consolidated financial position, results of operations or liquidity.

Operating Leases

The Company leases certain buildings and equipment under agreements that are classified as operating leases. Rental expense under operating leases was \$65,575, \$63,759 and \$53,072 in 2010, 2009 and 2008, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows: \$52,220 in 2011, \$43,737 in 2012, \$34,304 in 2013, \$29,889 in

2014, \$26,810 in 2015 and \$81,938 thereafter.

During 2010, the Company entered into sale-leaseback transactions involving four distribution facilities. The facilities are being leased back over terms ranging from three years to twelve years and are classified as operating leases. The Company received net proceeds on the sales of \$41,282, resulting in deferred gains of \$15,441 which will be amortized over the lease terms.

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During 2009, the Company entered into a sale-leaseback transaction involving a manufacturing facility. The facility is being leased back over 22 months and is classified as an operating lease. The Company received net proceeds on the sale of \$2,517, resulting in a deferred gain of \$348 which will be amortized over the lease term.

During 2008, the Company entered into sale-leaseback transactions involving two distribution centers and one manufacturing facility. The facilities are being leased back over terms ranging from one to four years and are classified as operating leases. The Company received net proceeds on the sales of \$18,782, resulting in deferred gains of \$6,317 which will be amortized over the lease terms.

License Agreements

The Company is party to several royalty-bearing license agreements for use of third-party trademarks in certain of their products. The license agreements typically require a minimum guarantee to be paid either at the commencement of the agreement, by a designated date during the term of the agreement or by the end of the agreement period. When payments are made in advance of when they are due, the Company records a prepayment and amortizes the expense in the *Cost of sales* line of the Consolidated Statements of Income uniformly over the guaranteed period. For guarantees required to be paid at the completion of the agreement, royalties are expensed through *Cost of sales* as the related sales are made. Management has reviewed all license agreements and has concluded that there are no liabilities recorded at inception of the agreements.

During 2010, 2009 and 2008, the Company incurred royalty expense of approximately \$12,772, \$11,105 and \$11,709, respectively.

Minimum amounts due under the license agreements are approximately \$3,796 in 2011, \$8,852 in 2012, \$8,114 in 2013, \$8,086 in 2014 and \$8,422 in 2015. In addition to the minimum guaranteed amounts under license agreements, the Company is a party to a partnership agreement which includes a minimum fee of \$5,622 for each year from 2011 through 2017.

(12) Intangible Assets and Goodwill

During 2010, the Company completed the business acquisition of Gear for Sports. The acquisition resulted in the recognition of \$108,142 of goodwill and \$52,700 of intangible assets, which consisted primarily of college and pro sports license agreements and customer and distributor relationships.

During 2008, the Company completed two business acquisitions: a sewing operation in Thailand and an embroidery and screen-printing production operation in Honduras, that resulted in the recognition of goodwill of \$3,665 and \$3,797, respectively.

None of the preceding business acquisitions were determined by the Company to be material, individual or in the aggregate. As a result, the disclosures and supplemental pro forma information required by ASC805, *Business Combinations*, are not presented.

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(a) Intangible Assets

The primary components of the Company's intangible assets and the related accumulated amortization as follows:

	Gross	Accumulated Amortization	Net Book Value
Year ended January 1, 2011:			
Intangible assets subject to amortization:			
Trademarks and brand names	\$ 195,538	\$ 85,175	\$ 110,363
Licensing agreements	47,600	585	47,015
Customer and distributor relationships	3,200	96	3,104
Computer software	58,494	42,230	16,264
Other intangibles	1,900	24	1,876
	\$ 306,732	\$ 128,110	
Net book value of intangible assets			\$ 178,622

	Gross	Accumulated Amortization	Net Book Value
Year ended January 2, 2010:			
Intangible assets subject to amortization:			
Trademarks and brand names	\$ 192,440	\$ 77,146	\$ 115,294
Computer software	56,356	35,436	20,920
	\$ 248,796	\$ 112,582	
Net book value of intangible assets			\$ 136,214

The amortization expense for intangibles subject to amortization was \$12,509, \$12,443 and \$12,019 for 2010, 2009 and 2008, respectively. The estimated amortization expense for the next five years, assuming no change in the estimated useful lives of identifiable intangible assets or changes in foreign exchange rates is as follows: \$13,755 in 2011, \$13,473 in 2012, \$12,996 in 2013, \$12,105 in 2014 and \$9,632 in 2015. There was no impairment of trademarks in any of the periods presented.

(b) Goodwill

Goodwill and the changes in those amounts during the period are as follows:

	Innerwear	Outerwear	Hosiery	Direct to Consumer	International	Total
Net book value at January 3, 2009	\$ 219,729	\$ 63,814	\$ 25,173	\$ 255	\$ 13,031	\$ 322,002
	219,729	63,814	25,173	255	13,031	322,002

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Net book value at January 2, 2010							
Acquisition of business		108,142					108,142
Other	603	(603)					
Net book value at January 1, 2011	\$ 220,332	\$ 171,353	\$ 25,173	\$ 255	\$ 13,031		\$ 430,144

There has been no impairment of goodwill.

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(13) 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 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 Consolidated Statements of Cash Flows as cash flow from operating activities. The table below summarizes 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 using the exchange rate at the reporting date as of January 1, 2011 and January 2, 2010.

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	January 1, 2011	January 2, 2010
Foreign currency bought (sold):		
Canadian dollar	\$ (8,327)	\$ (3,427)
Japanese yen	(2,167)	(86)
European euro		(2,657)
European euro		1,737
Mexican peso	(29,267)	(38,027)
Mexican peso		14,067

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 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 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 Consolidated Statements of Cash Flows.

The Company is required under the 2009 Senior Secured Credit Facility to hedge a portion of its floating rate debt to reduce interest rate risk caused by floating rate debt issuance. To comply with this requirement, in 2010, the Company entered into hedging arrangements whereby it capped the LIBOR interest rate component on an aggregate of \$490,735 of the floating rate debt under the Floating Rate Senior Notes at 4.262%. The interest rate cap arrangements, with notional amounts of \$240,735 and \$250,000, expire in December 2011.

Cash Flow Hedges Foreign Currency Derivatives

The Company uses forward exchange and option contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated transactions, foreign currency-denominated investments, and other known foreign currency exposures. Gains and losses on these contracts are intended to offset losses and gains on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. The effective portion of foreign exchange hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying inventory is sold, using 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 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. The table below summarizes the U.S. dollar equivalent of commitments to

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purchase and sell foreign currencies in the Company's foreign currency cash flow hedge derivative portfolio using the exchange rate at the reporting date as of January 1, 2011 and January 2, 2010.

	January 1, 2011	January 2, 2010
Foreign currency bought (sold):		
Canadian dollar	\$ (43,778)	\$ (32,950)
Japanese yen	(11,681)	(12,520)
European euro	(28,180)	
Mexican peso	(10,147)	(16,300)

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 the 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 hedge derivative contracts related to the purchase of inventory is reported in the Consolidated Statements of Cash Flows as cash flow from operating activities. There were no amounts outstanding under cotton futures or cotton option contracts at January 1, 2011 and January 2, 2010.

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Fair Values of Derivative Instruments

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

	Balance Sheet Location	Fair Value January 1, 2011	January 2, 2010
Derivative assets hedges			
Interest rate contracts	Other noncurrent assets	\$ 3	\$
Foreign exchange contracts	Other current assets	408	40
Total derivative assets hedges		411	40
Derivative assets non-hedges			
Foreign exchange contracts	Other current assets		20
Total derivative assets		\$ 411	\$ 61
Derivative liabilities hedges			
Foreign exchange contracts	Accrued liabilities	\$ (874)	\$ (10)
Total derivative liabilities hedges		(874)	(10)
Derivative liabilities non-hedges			
Foreign exchange contracts	Accrued liabilities	(471)	(43)
Total derivative liabilities		\$ (1,345)	\$ (53)
Net derivative asset (liability)		\$ (934)	\$ 7

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Net Derivative Gain or Loss

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

	Amount of Gain (Loss) Recognized in Accumulated Other Comprehensive Loss (Effective Portion)		
	Year Ended		
	January 1, 2011	January 2, 2010	January 3, 2009
Interest rate contracts	\$ (516)	\$ 20,559	\$ (66,08
Foreign exchange contracts	(2,180)	(1,560)	75
Commodity contracts			(20
Total	\$ (2,696)	\$ 18,999	\$ (65,54

	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)			Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)
	Year Ended			
	January 1, 2011	January 2, 2010	January 3, 2009	
Interest rate contracts	\$ (17,964)	\$ (1,820)	\$ (1,176)	Interest expens net
Interest rate contracts		(26,029)		Other income (expense)
Foreign exchange contracts	(1,715)	721	(2,025)	Cost of sales
Commodity contracts		(95)	473	Cost of sales
Total	\$ (19,679)	\$ (27,223)	\$ (2,728)	

The Company expects to reclassify into earnings during the next 12 months a net loss from Accumulated Other Comprehensive Loss of approximately \$10,171.

As disclosed in Note 9, in connection with the amendment and restatement of the 2006 Senior Secured Credit Facility and repayment of the Second Lien Credit Facility in December 2009, all outstanding interest rate hedging instruments which were hedging these underlying debt instruments along with the interest rate

hedge instrument related to the Floating Rate Senior Notes were settled for \$62,256, of which \$40,391 was paid in December 2009 and the remaining \$21,865 was included in the Accounts Payable line of the Consolidated Balance Sheet at January 2, 2010. The amounts deferred in Accumulated Other Comprehensive Loss associated with the 2006 Senior Secured Credit Facility and Second Lien Credit Facility were released to earnings as the underlying forecasted interest payments were no longer probable of occurring, which resulted in recognition of losses totaling \$26,029 that are included in the Other Expense (Income) line of Consolidated Statement of Income. The amounts deferred in Accumulated Other Comprehensive Loss associated with the Floating Rate Senior Notes interest rate hedge were frozen at the termination date and will be amortized over the original remaining term of the interest rate hedge instrument. The unamortized balance in Accumulated Other Comprehensive Loss was \$17,043 as of January 1, 2011.

In the first quarter of 2010, the Company entered into two interest rate caps to hedge the risks associated with fluctuations in the 6-month LIBOR rate for the Floating Rate Senior Notes. The terms of the interest rate caps include: a total notional amount of \$490,735, consisting of \$240,735 and \$250,000, respectively, an expiration date of December 2011, and a capped 6-month LIBOR interest rate of 4.26%.

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Years ended January 1, 2011, January 2, 2010 and January 3, 2009****(amounts in thousands, except per share data)**

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 Consolidated Statements of Income. The Company recognized gains (losses) related to ineffectiveness of hedging relationships in 2010 of \$6 related to interest rate contracts. The Company recognized gains (losses) related to ineffectiveness of hedging relationships in 2009 of \$161, consisting of \$152 for interest rate contracts and \$9 for foreign exchange contracts. The Company recognized gains (losses) related to ineffectiveness of hedging relationships in 2008 of \$(323), consisting of \$(149) for interest rate contracts and \$(174) for foreign exchange contracts.

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

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income		
		January 1, 2011	Year Ended January 2, 2010	January 3, 2009
Foreign exchange contracts	Selling, general and administrative expenses	\$ (2,073)	\$ 3,846	\$ (6,69
Total		\$ (2,073)	\$ 3,846	\$ (6,69

(14) 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.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

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

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

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

The Company primarily applies the market approach for commodity derivatives and for all defined benefit plan investment assets, and the income approach for interest rate and foreign currency derivatives for recurring fair value measurements and attempts to utilize valuation techniques that maximize the use of

observable inputs and minimize the use of unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The determination of fair values incorporates various factors that include not only the credit standing of the counterparties involved and the impact of credit enhancements, but also the impact of the Company's nonperformance risk on its liabilities. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

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As of January 1, 2011 and January 2, 2010, 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 and defined benefit pension plan investment assets. The fair values of cotton derivatives are determined based on quoted prices in public markets and are categorized as Level 1. The fair values of interest rate and foreign exchange rate derivatives are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2. The fair values of defined benefit pension plan investments include: U.S. equity securities, certain foreign equity securities and debt securities that are determined based on quoted prices in public markets categorized as Level 1 certain foreign equity securities and debt securities that are determined based on inputs readily available in public markets or can be derived from information available in publicly quoted markets categorized as Level 2, and investments in hedge funds of funds and real estate investments that are based on unobservable inputs about which little or no market data exists that are classified as Level 3. There were no changes during 2010 to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis. The hedge fund of funds and real estate investments have varying redemption terms of monthly, quarterly and annually, and have required notification periods ranging from 45 to 90 days.

As of January 1, 2011, the Company did not have any non-financial assets or liabilities that are required to be measured at fair value on a recurring basis.

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 January 1, 2011		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Defined benefit pension plan investment assets:			
Hedge fund of funds	\$	\$	\$ 275,65
U.S. equity securities	157,661		
Foreign equity securities	36,889	27,423	
Debt securities	5,433	106,311	
Real estate			23,18
Cash and other	2,621		
	202,604	133,734	298,83
Derivative contracts:			
Interest rate derivative contracts		3	
Foreign exchange derivative contracts		408	
Foreign exchange derivative contracts		(1,345)	

(934)

Total	\$ 202,604	\$ 132,800	\$ 298,83
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	Assets (Liabilities) at Fair Value as of January 2, 2010		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Defined benefit pension plan investment assets:			
Hedge fund of funds	\$	\$	\$ 255,212
U.S. equity securities	143,603		
Foreign equity securities	37,815	26,978	
Debt securities	4,775	108,839	
Real estate			19,999
Cash and other	15,378		
	201,571	135,817	275,201
Derivative contracts:			
Foreign exchange derivative contracts		614	
Foreign exchange derivative contracts		(539)	
		75	
Total	\$ 201,571	\$ 135,892	\$ 275,201

The table below sets forth a summary of changes in the fair value of the Level 3 investment assets in 2010 and 2009.

	Hedge fund of funds	Real estate
Balance at January 3, 2009	\$ 242,060	\$ 27,979
Actual return on assets	33,152	(7,988)
Sale of assets	(20,000)	
Balance at January 2, 2010	\$ 255,212	\$ 19,999
Actual return on assets	20,438	3,199
Sale of assets		

Balance at January 1, 2011	\$	275,650	\$	23,18
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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 January 1, 2011 and January 2, 2010. The fair value of debt was \$2,060,828 and \$1,881,868 as of January 1, 2011 and January 2, 2010 and had a carrying value of \$2,080,735 and \$1,892,235, 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 January 1, 2011 and January 2, 2010, primarily due to the short-term nature of these instruments.

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Years ended January 1, 2011, January 2, 2010 and January 3, 2009**(amounts in thousands, except per share data)****(15) Defined Benefit Pension Plans**

At January 1, 2011, the Company's pension plans consisted of the Hanesbrands Inc. Pension Plan, various nonqualified retirement plans and international plans. Benefits under the Hanesbrands Inc. Pension Plan were frozen effective December 31, 2005.

The annual cost (income) incurred by the Company for these defined benefit plans in 2010, 2009 and 2008, was \$14,806, \$21,293 and \$(11,801), respectively. The components of net periodic benefit cost and other amounts recognized in other comprehensive loss of the Company's noncontributory defined benefit pension plans were as follows:

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Service cost	\$ 1,225	\$ 1,198	\$ 1,133
Interest cost	49,337	50,755	51,411
Expected return on assets	(44,094)	(39,832)	(64,541)
Settlement cost	139		
Amortization of:			
Prior service cost	26	26	30
Net actuarial loss	8,173	9,146	16,111
Net periodic benefit cost (income)	\$ 14,806	\$ 21,293	\$ (11,801)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income (Loss)			
Net (gain) loss	\$ 6,605	\$ (11,947)	\$ 300,121
Prior service cost	(26)	(26)	(14,111)
Total recognized in other comprehensive loss (income)	6,579	(11,973)	299,980
Total recognized in net periodic benefit cost and other comprehensive loss (income)	\$ 21,385	\$ 9,320	\$ 288,181

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2011 are \$9,111 and \$29, respectively.

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The funded status of the Company's defined benefit pension plans at the respective year ends was as follows:

	January 1, 2011	January 2, 2010
Accumulated benefit obligation:		
Beginning of year	\$ 899,208	\$ 854,411
Service cost	1,225	1,191
Interest cost	49,337	50,757
Benefits paid	(56,859)	(57,781)
Impact of exchange rate change	1,939	2,711
Settlements	(1,284)	(5,391)
Actuarial loss	38,055	53,301
End of year	931,621	899,201
Fair value of plan assets:		
Beginning of year	612,590	564,701
Actual return on plan assets	67,624	92,801
Employer contributions	11,956	16,051
Benefits paid	(56,859)	(57,781)
Settlements	(1,284)	(5,741)
Impact of exchange rate change	1,141	2,551
End of year	635,168	612,591
Funded status	\$ (296,453)	\$ (286,611)

In the fourth quarter of 2010, the Company recognized a one-time out of period adjustment resulting from a review of census data for the Hanesbrands Inc. Pension Plan, which reduced the accumulated benefit obligation by \$18,892 and accumulated other comprehensive loss by \$11,359 (net of taxes). The impact of the adjustment was not considered material to any current year or prior year periods.

The total accumulated benefit obligation and the accumulated benefit obligation and fair value of plan assets for the Company's pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	January 1, 2011	January 2, 2010
Accumulated benefit obligation	\$ 931,621	\$ 899,201
Plans with accumulated benefit obligation in excess of plan assets		
Accumulated benefit obligation	931,621	898,991
Fair value of plan assets	635,168	612,311

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Amounts recognized in the Company's Consolidated Balance Sheets consist of:

	January 1, 2011	January 2, 2010
Noncurrent assets	\$	\$
Current liabilities	(2,177)	(3,59)
Noncurrent liabilities	(294,276)	(283,07)
Accumulated other comprehensive loss	(339,846)	(332,37)

Amounts recognized in accumulated other comprehensive loss consist of:

	January 1, 2011	January 2, 2010
Prior service cost	\$ 139	\$ 16
Actuarial loss	339,707	332,20
	\$ 339,846	\$ 332,37

Accrued benefit costs related to the Company's defined benefit pension plans are reported in the Other noncurrent assets, Accrued liabilities Payroll and employee benefits and Pension and postretirement lines of the Consolidated Balance Sheets.

(a) Measurement Date and Assumptions

A December 31 measurement date is used to value plan assets and obligations for the pension plans. In determining the discount rate, the Company utilizes, as a general benchmark, the single discount rate equivalent to discounting the expected cash flows from each plan using the yields at each duration from a published yield curve as of the measurement date. The expected long-term rate of return on plan assets was based on the Company's investment policy target allocation of the asset portfolio between various asset classes and the expected real returns of each asset class over various periods of time. The weighted average actuarial assumptions used in measuring the net periodic benefit cost and plan obligations for the periods presented were as follows:

	January 1, 2011	January 2, 2010	January 3, 2009
Net periodic benefit cost:			
Discount rate	5.78%	6.11%	6.34
Long-term rate of return on plan assets	7.48	7.41	8.03
Rate of compensation increase (1)	3.70	3.38	3.63
Plan obligations:			
Discount rate	5.27%	5.78%	6.11
Rate of compensation increase (1)	3.75	3.70	3.38

(1) The compensation increase assumption applies to the international plans and portions of the nonqualified retirement plans, as benefits under these plans were not frozen at January 1, 2011, January 2, 2010 and January 3, 2009.

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(b) Plan Assets, Expected Benefit Payments, and Funding

The allocation of pension plan assets as of the respective period end measurement dates is as follows:

	January 1, 2011	January 2, 2010
Asset category:		
Hedge fund of funds	43%	42
U.S. equity securities	25	23
Debt securities	18	19
Foreign equity securities	10	11
Real estate	4	3
Cash and other		2

The Company's asset strategy and primary investment objective are to maximize the principal value of plan assets to meet current and future benefit obligations to plan participants and their beneficiaries. To accomplish this goal, the assets of the plan are broadly diversified to protect against large investment losses and to reduce the likelihood of excessive volatility of returns. Diversification of assets is achieved through strategic allocations to various asset classes, as well as various investment styles within these asset classes, and by retaining multiple, third-party investment management firms with complementary investment styles and philosophies to implement these allocations. The Company has established a target asset allocation based upon analysis of risk/return tradeoffs and correlations of asset mixes given long-term historical data, prospective capital market returns and forecasted liabilities of the plans. The target asset allocation approximates the actual asset allocation as of January 1, 2011. In addition to volatility protection, diversification enables the assets of the plan the best opportunity to provide adequate returns in order to meet the Company's investment return objectives. These objectives include, over a rolling five-year period, to achieve a total return which exceeds the required actuarial rate of return for the plan and to outperform a passive portfolio, consisting of a similar asset allocation.

The Company utilizes market data or assumptions that market participants would use in pricing the pension plan assets. Effective January 2, 2010, the Company adopted new pension disclosure rules. In accordance with these rules, 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 pension plan assets. At January 1, 2011, the Company had \$202,604 classified as Level 1 assets, \$133,734 classified as Level 2 assets and \$298,830 classified as Level 3 assets. At January 2, 2010, the Company had \$201,571 classified as Level 1 assets, \$135,817 classified as Level 2 assets and \$275,202 classified as Level 3 assets. The Level 1 assets consisted primarily of U.S. equity securities, certain debt securities, certain foreign equity securities and cash and cash equivalents, Level 2 assets consisted primarily of certain debt securities and certain foreign equity securities and Level 3 assets consisted primarily of hedge fund of funds and real estate investments. Refer to Note 14 for the Company's complete disclosure of the fair value of pension plan assets.

The Company expects to make a \$7 million to \$9 million contribution to the Hanesbrands Inc. Pension Plan in 2011 based on a preliminary calculation by its actuary. Expected benefit payments are as follows: \$50,993 in 2011, \$50,430 in 2012, \$50,341 in 2013, \$52,510 in 2014, \$53,392 in 2015 and \$280,310 thereafter.

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(16) Income Taxes

The provision for income tax computed by applying the U.S. statutory rate to income before taxes as reconciled to the actual provisions were:

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Income before income tax expense:			
Domestic	12.1%	(142.8)%	0.6
Foreign	87.9	242.8	99.4
	100.0%	100.0%	100.0
Tax expense at U.S. statutory rate	35.0%	35.0%	35.0
State income taxes	1.2	(3.4)	0.6
Tax on remittance of foreign earnings	2.5	33.9	1.5
Foreign taxes less than U.S. statutory rate	(24.5)	(46.4)	(16.3)
Change in state effective tax rate		(14.1)	
Employee benefits	1.3	10.6	0.6
Change in valuation allowance	3.0	(9.9)	2.1
Release of unrecognized tax benefit reserves	(8.8)		
Other, net	(0.1)	6.3	(1.5)
Taxes at effective worldwide tax rates	9.6%	12.0%	22.0

Current and deferred tax provisions (benefits) were:

	Current	Deferred	Total
Year ended January 1, 2011			
Domestic	\$ (14,268)	\$ 17,340	\$ 3,072
Foreign	23,157	(8,077)	15,080
State	(2,245)	6,531	4,286
	\$ 6,644	\$ 15,794	\$ 22,438
Year ended January 2, 2010			
Domestic	\$	\$ 6,727	\$ 6,727
Foreign	15,783	(9,503)	6,280
State	362	(6,376)	(6,014)
	\$ 16,145	\$ (9,152)	\$ 6,993
Year ended January 3, 2009			
Domestic	\$ 13,531	\$ (3,672)	\$ 9,859

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Foreign	20,285	4,264	24,54
State	3,497	(2,037)	1,46
	\$ 37,313	\$ (1,445)	\$ 35,86

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(amounts in thousands, except per share data)

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Cash payments for income taxes	\$ 23,350	\$ 15,163	\$ 32,76

Cash payments above represent cash tax payments made by the Company primarily in foreign jurisdictions.

The deferred tax assets and liabilities at the respective year-ends were as follows:

	January 1, 2011	January 2, 2010
Deferred tax assets:		
Nondeductible reserves	\$ 5,165	\$ 10,96
Inventories	93,972	84,96
Property and equipment		6,26
Intangibles	135,438	156,69
Bad debt allowance	11,404	13,17
Accrued expenses	13,049	11,59
Employee benefits	170,247	160,67
Tax credits	11,064	11,31
Net operating loss and other tax carryforwards	41,864	40,19
Derivatives	7,204	13,97
Other	16,305	6,27
Gross deferred tax assets	505,712	516,07
Less valuation allowances	(27,064)	(21,55)
Deferred tax assets	478,648	494,51
Deferred tax liabilities:		
Property and equipment	4,204	
Prepays	5,473	2,71
Deferred tax liabilities	9,677	2,71
Net deferred tax assets	\$ 468,971	\$ 491,80

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will

realize the benefits of these deductible differences, net of the existing valuation allowances.

The valuation allowance for deferred tax assets as of January 1, 2011 and January 2, 2010 was \$27,064 and \$21,556, respectively. The net change in the total valuation allowance for 2010 was \$5,508 which, including foreign currency fluctuations, related to foreign loss carryforwards generated partially offset by favorable financial performance in certain foreign jurisdictions. The net change in the total valuation allowance for 2009 was \$(2,171) which, including foreign currency fluctuations, consisted of a release of \$(6,816) related to favorable financial performance in certain foreign jurisdictions partially offset by foreign loss carryforwards generated.

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HANESBRANDS INC.
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Years ended January 1, 2011, January 2, 2010 and January 3, 2009
(amounts in thousands, except per share data)

The valuation allowance at January 1, 2011 and January 2, 2010 relates to deferred tax assets established for foreign loss carryforwards of \$25,560 and \$21,556, respectively.

At January 1, 2011, the Company has total net operating loss carryforwards of approximately \$113,223 for foreign jurisdictions, which will expire as follows:

Fiscal Year:

2011	\$ 3,18
2012	5,72
2013	23,92
2014	9,50
2015	11,97
Thereafter	58,90

At January 1, 2011, the Company had tax credit carryforwards totaling \$11,064 which expire after 2019.

At January 1, 2011, applicable U.S. federal income taxes and foreign withholding taxes have not been provided on the accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested. If these earnings had not been permanently reinvested, deferred taxes of approximately \$231,000 would have been recognized in the Consolidated Financial Statements.

The Company and Sara Lee entered into a tax sharing agreement in connection with the spin off of the Company from Sara Lee on September 5, 2006. In accordance with section 2.12 of the tax sharing agreement, the Company recorded a liability of approximately \$15,000 to Sara Lee for amounts related to income generated prior to the spin off from Sara Lee which were repatriated in periods since the spin off. This liability is included in Accounts payable in the Consolidated Balance Sheet as of January 1, 2011 resulting in a reduction to Additional paid-in capital. Except for amounts reflected in this Note 16, to the best of the Company's knowledge, there are no other amounts owed to or from Sara Lee under the tax sharing agreement.

In 2010, the Company recognized a benefit of \$20,504 which resulted from a change in estimate associated with the remeasurement of unrecognized tax benefit accruals and the determination that certain tax positions had been effectively settled following the finalization of tax reviews and audits for amounts less than originally estimated. Although it is not reasonably possible to estimate the amount by which unrecognized tax benefits may increase or decrease within the next twelve months due to uncertainties regarding the timing of examinations and the amount of settlements that may be paid, if any, to tax authorities, the Company currently does not expect any changes for unrecognized tax benefits accrued at January 1, 2011 within the next twelve months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 3, 2009	\$ 25,18
Additions based on tax positions related to the current year	12,67
Additions for tax positions of prior years	2,52
Reductions for tax positions of prior years	(45)
Balance at January 2, 2010	\$ 39,92
Additions based on tax positions related to the current year	10,31
Reductions for tax positions of prior years	(20,50)
Balance at January 1, 2011	\$ 29,73

Table of Contents**HANESBRANDS INC.****Notes to Consolidated Financial Statements (Continued)
Years ended January 1, 2011, January 2, 2010 and January 3, 2009****(amounts in thousands, except per share data)**

Included in unrecognized tax benefits are \$29,737 of tax benefits that, if recognized, would reduce the Company's annual effective tax rate. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company recognized \$1,386, \$1,010 and \$647 for interest and penalties classified as income tax expense in the Consolidated Statement of Income for 2010, 2009 and 2008, respectively. At January 1, 2011 and January 2, 2010, the Company had a total of \$4,687 and \$2,377, respectively, of interest and penalties accrued related to unrecognized tax benefits.

The Company files a consolidated U.S. federal income tax return, as well as separate and combined income tax returns in numerous state and foreign jurisdictions. The tax years subject to examination vary by jurisdiction. The Company regularly assesses the outcomes of both ongoing and future examinations for the current or prior years to ensure the Company's provision for income taxes is sufficient. The Company recognizes liabilities based on estimates of whether additional taxes will be due and believes its reserves are adequate in relation to any potential assessments.

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

Based on the Company's computation of the final amount of deferred taxes for the Company's opening balance sheet as of September 6, 2006, the amount that is expected to be collected from Sara Lee based on the Company's computation of \$72,223, which reflects a preliminary cash installment received from Sara Lee of \$18,000, is included as a receivable in Other current assets in the Consolidated Balance Sheet as of January 1, 2011 and January 2, 2010. The Company and Sara Lee exchanged information in connection with this matter, but Sara Lee disagreed with the Company's computation. In accordance with the dispute resolution provisions of the tax sharing agreement, in August 2009, the Company submitted the dispute to binding arbitration. The arbitration process is ongoing, and the Company will continue to prosecute its claim. The Company does not believe that the resolution of this dispute will have a material impact on the Company's financial position, results of operations or cash flows.

(17) Stockholders' Equity

The Company is authorized to issue up to 500,000 shares of common stock, par value \$0.01 per share, and up to 50,000 shares of preferred stock, par value \$0.01 per share, and the Company's board of directors may, without stockholder approval, increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Company is authorized to issue. At January 1, 2011 and

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January 2, 2010, 96,207 and 95,397 shares, respectively, of common stock were issued and outstanding and no shares of preferred stock were issued or outstanding. Included within the 50,000 shares of preferred stock 500 shares are designated Junior

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HANESBRANDS INC.

Notes to Consolidated Financial Statements (Continued)
Years ended January 1, 2011, January 2, 2010 and January 3, 2009

(amounts in thousands, except per share data)

Participating Preferred Stock, Series A (the Series A Preferred Stock) and reserved for issuance upon the exercise of rights under the rights agreement described below.

On February 1, 2007, the Company announced that the Board of Directors granted authority for the repurchase of up to 10,000 shares of the Company's common stock. Share repurchases are made periodically in open-market transactions, and are subject to market conditions, legal requirements and other factors. Additionally, management has been granted authority to establish a trading plan under Rule 10b5-1 of the Exchange Act in connection with share repurchases, which will allow the Company to repurchase shares in the open market during periods in which the stock trading window is otherwise closed for our company and certain of the Company's officers and employees pursuant to the Company's insider trading policy. Since inception of the program, the Company has purchased 2,800 shares of common stock at a cost of \$74,747 (average price of \$26.33). The primary objective of the share repurchase program is to reduce the impact of dilution caused by the exercise of options and vesting of stock unit awards.

Preferred Stock Purchase Rights

Pursuant to a stockholder rights agreement entered into by the Company prior to the spin off, one preferred stock purchase right will be distributed with and attached to each share of the Company's common stock. Each right will entitle its holder, under the circumstances described below, to purchase from the Company one one-thousandth of a share of the Series A Preferred Stock at an exercise price of \$75 per right. Initially, the rights will be associated with the Company's common stock, and will be transferable with and only with the transfer of the underlying share of common stock. Until a right is exercised, its holder, as such, will have no rights as a stockholder with respect to such rights, including, without limitation, the right to vote or to receive dividends.

The rights will become exercisable and separately certificated only upon the rights distribution date, which will occur upon the earlier of: (i) ten days following a public announcement by the Company that a person or group (an acquiring person) has acquired, or obtained the right to acquire, beneficial ownership 15% or more of its outstanding shares of common stock (the date of the announcement being the stock acquisition date); or (ii) ten business days (or later if so determined by our board of directors) following the commencement of or public disclosure of an intention to commence a tender offer or exchange offer by a person if, after acquiring the maximum number of securities sought pursuant to such offer, such person, or any affiliate or associate of such person, would acquire, or obtain the right to acquire, beneficial ownership 15% or more of our outstanding shares of the Company's common stock.

Upon the Company's public announcement that a person or group has become an acquiring person, each holder of a right (other than any acquiring person and certain related parties, whose rights will have automatically become null and void) will have the right to receive, upon exercise, common stock with a value equal to two times the exercise price of the right. In the event of certain business combinations, each holder of a right (except rights which previously have been voided as described above) will have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the right.

The Company may redeem the rights in whole, but not in part, at a price of \$0.001 per right (subject to adjustment and payable in cash, common stock or other consideration deemed appropriate by the board of directors) at any time prior to the earlier of the stock acquisition date and the rights expiration date. Immediately upon the action of the board of directors authorizing any redemption, the rights will terminate and the holders of rights will only be entitled to receive the redemption price. At any time after a person becomes an acquiring person and prior to the earlier of (i) the time any person, together with all affiliates and associates, becomes the beneficial owner of 50% or more of the Company's outstanding common stock and (ii) the occurrence of a business combination, the board of directors may cause the Company to exchange for

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all or part of the then-outstanding and exercisable rights shares of its common stock at an exchange ratio of one common share per right, adjusted to reflect any stock split, stock dividend or similar transaction.

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Table of Contents**HANESBRANDS INC.****Notes to Consolidated Financial Statements (Continued)****Years ended January 1, 2011, January 2, 2010 and January 3, 2009****(amounts in thousands, except per share data)****(18) Business Segment Information**

The Company's operations are managed and reported in five operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Hosiery, Direct to Consumer and International. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses but the segments share a common supply chain and media and marketing platforms. In October 2009, the Company completed the sale of its yarn operations and, as a result, the Company no longer has net sales in the Other segment, which was primarily comprised of sales of yarn to third parties.

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 intimate apparel, men's underwear, kids' underwear and socks.

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

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

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

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

The Company evaluates the operating performance of its segments based upon segment operating profit, which is defined as operating profit before general corporate expenses, amortization of trademarks and other identifiable intangibles and restructuring and related accelerated depreciation charges and inventory write-offs. The accounting policies of the segments are consistent with those described in Note 2, Summary of Significant Accounting Policies.

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Net sales:			
Innerwear	\$ 2,012,922	\$ 1,833,616	\$ 1,947,166
Outerwear	1,259,935	1,051,735	1,196,150
Hosiery	166,780	185,710	217,390
Direct to Consumer	377,847	369,739	370,160
International	509,229	437,804	496,170
Other		12,671	21,720
Total net sales	\$ 4,326,713	\$ 3,891,275	\$ 4,248,776

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Years ended January 1, 2011, January 2, 2010 and January 3, 2009
(amounts in thousands, except per share data)

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Segment operating profit (loss):			
Innerwear	\$ 263,368	\$ 234,352	\$ 223,42
Outerwear	77,656	53,050	66,14
Hosiery	53,583	61,070	68,69
Direct to Consumer	25,880	37,178	44,54
International	59,368	44,688	64,34
Other		(2,164)	32
Total segment operating profit	479,855	428,174	467,48
Items not included in segment operating profit (loss):			
General corporate expenses	(63,158)	(75,127)	(45,17
Amortization of trademarks and other identifiable intangibles	(12,509)	(12,443)	(12,01
Restructuring		(53,888)	(50,26
Inventory write-offs included in cost of sales		(4,135)	(18,69
Accelerated depreciation included in cost of sales		(8,641)	(23,86
Accelerated depreciation included in selling, general and administrative expenses		(3,084)	1
Total operating profit	404,188	270,856	317,48
Other (expense) income	(20,221)	(49,301)	63
Interest expense, net	(150,236)	(163,279)	(155,07
Income before income tax expense	\$ 233,731	\$ 58,276	\$ 163,03
		January 1, 2011	January 2, 2010
Assets:			
Innerwear		\$ 1,269,839	\$ 1,101,63
Outerwear		828,142	707,11
Hosiery		71,496	83,66
Direct to Consumer		88,623	80,24
International		278,757	221,50
Other			1,62
		2,536,857	2,195,78
Corporate (1)		1,253,145	1,130,78
Total assets		\$ 3,790,002	\$ 3,326,56

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HANESBRANDS INC.
Notes to Consolidated Financial Statements (Continued)
Years ended January 1, 2011, January 2, 2010 and January 3, 2009
(amounts in thousands, except per share data)

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Depreciation and amortization expense:			
Innerwear	\$ 35,095	\$ 36,328	\$ 39,94
Outerwear	21,709	21,988	25,09
Hosiery	2,627	3,831	5,77
Direct to Consumer	6,116	5,621	3,71
International	2,096	2,071	2,28
Other		169	80
	67,643	70,008	77,62
Corporate	18,969	26,747	37,52
Total depreciation and amortization expense	\$ 86,612	\$ 96,755	\$ 115,14

	January 1, 2011	Years Ended January 2, 2010	January 3, 2009
Additions to long-lived assets:			
Innerwear	\$ 49,319	\$ 49,061	\$ 70,80
Outerwear	38,000	59,048	84,41
Hosiery	550	711	78
Direct to Consumer	11,679	8,914	11,15
International	2,543	1,504	2,69
Other		16	4
	102,091	119,254	169,89
Corporate	4,149	7,571	17,06
Total additions to long-lived assets	\$ 106,240	\$ 126,825	\$ 186,95

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

Sales to Wal-Mart, Target and Kohl's were substantially in the Innerwear and Outerwear segments and represented 26%, 17% and 6% of total sales in 2010, respectively.

Worldwide sales by product category for Innerwear, Outerwear and Hosiery were \$2,616,865, \$1,485,15 and \$224,696, respectively, in 2010.

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(19) Geographic Area Information

	January 1, 2011		Years Ended or at January 2, 2010		January 3, 2009	
	Long-Lived		Long-Lived		Long-Lived	
	Sales	Assets	Sales	Assets	Sales	Assets
United States	\$ 3,819,296	\$ 176,035	\$ 3,447,751	\$ 185,821	\$ 3,748,382	\$ 237,84
Mexico	77,104	2,004	65,832	1,672	68,453	7,09
Central America and the Caribbean						
Basin	3,905	265,625	10,419	260,564	13,550	232,62
Japan	96,543	485	94,037	240	98,251	31
Canada	144,154	5,159	124,197	5,084	139,971	4,81
Europe	66,543	464	59,679	520	93,560	48
Brazil	57,078	792	44,957	678	44,197	50
China	15,246	138,254	10,197	114,100	9,397	72,65
Other	46,844	42,436	34,206	34,147	33,009	31,85
	\$ 4,326,713	\$ 631,254	\$ 3,891,275	\$ 602,826	\$ 4,248,770	\$ 588,18

The net sales by geographic region is attributed by customer location.

(20) Quarterly Financial Data (Unaudited)

	First	Second	Third	Fourth	Total
2010					
Net sales	\$ 927,840	\$ 1,075,852	\$ 1,173,362	\$ 1,149,659	\$ 4,326,71
Gross profit	327,430	374,806	363,875	348,658	1,414,76
Net income (loss)	36,513	85,412	61,312	28,056	211,29
Basic earnings (loss) per share	0.38	0.89	0.64	0.29	2.1
Diluted earnings (loss) per share	0.37	0.87	0.63	0.29	2.1
2009					
Net sales	\$ 857,841	\$ 986,022	\$ 1,058,673	\$ 988,739	\$ 3,891,27
Gross profit	257,876	327,391	356,680	323,327	1,265,27
Net income	(19,328)	30,555	41,138	(1,082)	51,28
Basic earnings per share	(0.20)	0.32	0.43	(0.01)	0.5
Diluted earnings per share	(0.20)	0.32	0.43	(0.01)	0.5

The amounts above include the impact of restructuring as described in Note 22 to the consolidated financial statements.

(21) Consolidating Financial Information

In accordance with the indenture governing the Company's \$500,000 Floating Rate Senior Notes issued 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

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HANESBRANDS INC.
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(amounts in thousands, except per share data)

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

(ii) Guarantor subsidiaries, on a combined basis, as specified in the Indentures;

(iii) Non-guarantor subsidiaries, on a combined basis;

(iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among Parent Company, the guarantor subsidiaries and the non-guarantor subsidiaries, (b) eliminate intercompany profit in inventory, (c) eliminate the investments in our subsidiaries and (d) record consolidating entries; and

(v) Parent Company, on a consolidated basis.

The Floating Rate Senior Notes, the 8% Senior Notes and the 6.375% Senior Notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary, each of which is wholly owned, directly or indirectly, by Hanesbrands Inc. 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.

Consolidating Statement of Income Year Ended January 1, 2011

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	\$ 4,018,341	\$ 470,527	\$ 3,025,488	\$ (3,187,643)	\$ 4,326,713
Cost of sales	3,268,900	187,657	2,672,497	(3,217,110)	2,911,946
Gross profit	749,441	282,870	352,991	29,467	1,414,769
Selling, general and administrative expenses	793,210	99,636	116,713	1,022	1,010,581
Operating profit (loss)	(43,769)	183,234	236,278	28,445	404,188
Equity in earnings (loss) of subsidiaries	396,080	155,925		(552,005)	
Other expense	20,221				20,221
Interest expense, net	138,746	(90)	11,584	(4)	150,246
Income (loss) before income tax expense (benefit)	193,344	339,249	224,694	(523,556)	233,731
Income tax expense (benefit)	(17,949)	27,625	12,762		22,442
Net income (loss)	\$ 211,293	\$ 311,624	\$ 211,932	\$ (523,556)	\$ 211,299

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HANESBRANDS INC.
Notes to Consolidated Financial Statements (Continued)
Years ended January 1, 2011, January 2, 2010 and January 3, 2009
(amounts in thousands, except per share data)

Consolidating Statement of Income Year Ended January 2, 2010					
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	\$ 3,911,759	\$ 429,717	\$ 2,707,159	\$ (3,157,360)	\$ 3,891,271
Cost of sales	3,201,313	157,800	2,402,017	(3,135,129)	2,626,000
Gross profit	710,446	271,917	305,142	(22,231)	1,265,272
Selling, general and administrative expenses	743,907	88,993	105,366	2,264	940,530
Restructuring	48,319		5,569		53,888
Operating profit (loss)	(81,780)	182,924	194,207	(24,495)	270,856
Equity in earnings (loss) of subsidiaries	294,200	102,506		(396,706)	
Other expense	49,301				49,301
Interest expense, net	123,760	21,284	18,235		163,279
Income (loss) before income tax expense (benefit)	39,359	264,146	175,972	(421,201)	58,276
Income tax expense (benefit)	(11,924)	3,843	15,074		6,993
Net income (loss)	\$ 51,283	\$ 260,303	\$ 160,898	\$ (421,201)	\$ 51,283

Consolidating Statement of Income Year Ended January 3, 2009					
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	\$ 4,456,838	\$ 432,209	\$ 2,839,424	\$ (3,479,701)	\$ 4,248,770
Cost of sales	3,520,096	169,115	2,537,883	(3,355,674)	2,871,424
Gross profit	936,742	263,094	301,541	(124,027)	1,377,350
Selling, general and administrative expenses	839,023	76,139	94,281	164	1,009,607
Restructuring	34,313	375	15,575		50,263
Operating profit (loss)	63,406	186,580	191,685	(124,191)	317,480
Equity in earnings (loss) of subsidiaries	170,714	128,359		(299,073)	
Other income	(634)				(634)
Interest expense, net	103,919	33,462	17,696		155,077

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Income (loss) before income tax expense	130,835	281,477	173,989	(423,264)	163,03
Income tax expense	3,666	9,312	22,890		35,86
Net income (loss)	\$ 127,169	\$ 272,165	\$ 151,099	\$ (423,264)	\$ 127,16

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HANESBRANDS INC.
Notes to Consolidated Financial Statements (Continued)
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(amounts in thousands, except per share data)

	Condensed Consolidating Balance Sheet				
	January 1, 2011				
	Parent	Guarantor	Non-Guarantor	Consolidating	Consolidate
	Company	Subsidiaries	Subsidiaries	Entries and	Eliminations
Assets					
Cash and cash equivalents	\$ 17,535	\$ 2,039	\$ 24,097	\$	\$ 43,671
Trade accounts receivable					
less allowances	50,375	35,256	417,612		503,243
Inventories	954,073	100,435	355,908	(87,697)	1,322,719
Deferred tax assets and other current assets	255,880	13,480	8,894	(216)	278,038
Total current assets	1,277,863	151,210	806,511	(87,913)	2,147,671
Property, net	118,596	47,842	464,816		631,254
Trademarks and other identifiable intangibles, net	16,006	141,635	20,981		178,622
Goodwill	232,882	124,214	73,048		430,144
Investments in subsidiaries	1,542,231	886,349		(2,428,580)	
Deferred tax assets and other noncurrent assets	115,500	350,862	146,859	(210,910)	402,311
Total assets	\$ 3,303,078	\$ 1,702,112	\$ 1,512,215	\$ (2,727,403)	\$ 3,790,002
Liabilities and Stockholders Equity					
Accounts payable	\$ 243,169	\$ 17,198	\$ 152,002	\$	\$ 412,369
Accrued liabilities	150,831	55,502	69,979	(9)	276,303
Notes payable			50,678		50,678
Current portion of debt			90,000		90,000
Total current liabilities	394,000	72,700	362,659	(9)	829,350
Long-term debt	1,990,735				1,990,735
Other noncurrent liabilities	355,669	35,072	16,502		407,243
Total liabilities	2,740,404	107,772	379,161	(9)	3,227,328
Stockholders equity	562,674	1,594,340	1,133,054	(2,727,394)	562,674
Total liabilities and stockholders equity	\$ 3,303,078	\$ 1,702,112	\$ 1,512,215	\$ (2,727,403)	\$ 3,790,002

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HANESBRANDS INC.
Notes to Consolidated Financial Statements (Continued)
Years ended January 1, 2011, January 2, 2010 and January 3, 2009
(amounts in thousands, except per share data)

	Condensed Consolidating Balance Sheet				
	January 2, 2010				
	Parent	Guarantor	Non-Guarantor	Consolidating	Consolidate
	Company	Subsidiaries	Subsidiaries	Entries and	Eliminations
Assets					
Cash and cash equivalents	\$ 12,805	\$ 1,646	\$ 24,492	\$	\$ 38,94
Trade accounts receivable					
less allowances	47,654	5,973	398,807	(1,893)	450,54
Inventories	838,685	52,165	291,062	(132,708)	1,049,20
Deferred tax assets and other current assets	233,073	13,605	37,643	(452)	283,86
Total current assets	1,132,217	73,389	752,004	(135,053)	1,822,55
Property, net	154,476	17,787	430,563		602,82
Trademarks and other identifiable intangibles, net	20,677	109,833	5,704		136,21
Goodwill	232,882	16,934	72,186		322,00
Investments in subsidiaries	927,105	730,159		(1,657,264)	
Deferred tax assets and other noncurrent assets	371,287	153,617	29,259	(111,198)	442,96
Total assets	\$ 2,838,644	\$ 1,101,719	\$ 1,289,716	\$ (1,903,515)	\$ 3,326,56
Liabilities and Stockholders Equity					
Accounts payable	\$ 172,802	\$ 5,237	\$ 88,285	\$ 85,647	\$ 351,97
Accrued liabilities	207,079	22,902	65,689	(35)	295,63
Notes payable			66,681		66,68
Current portion of debt	64,688		100,000		164,68
Total current liabilities	444,569	28,139	320,655	85,612	878,97
Long-term debt	1,727,547				1,727,54
Other noncurrent liabilities	331,809	3,626	45,597	4,291	385,32
Total liabilities	2,503,925	31,765	366,252	89,903	2,991,84
Stockholders equity	334,719	1,069,954	923,464	(1,993,418)	334,71
Total liabilities and stockholders equity	\$ 2,838,644	\$ 1,101,719	\$ 1,289,716	\$ (1,903,515)	\$ 3,326,56

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HANESBRANDS INC.
Notes to Consolidated Financial Statements (Continued)
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(amounts in thousands, except per share data)

	Condensed Consolidating Statement of Cash Flows				
	Year Ended January 1, 2011				
	Consolidating				
	Entries				
	Parent	Guarantor	Non-Guarantor	and	Consolidating
	Company	Subsidiaries	Subsidiaries	Eliminations	Consolidating
Net cash provided by (used in) operating activities	\$ 381,450	\$ 162,475	\$ 139,614	\$ (550,485)	\$ 1
Investing activities:					
Purchases of property, plant and equipment	(25,813)	(11,403)	(69,024)		(1)
Acquisition of business, net of cash acquired		(222,878)			(2)
Proceeds from sales of assets	44,269		1,373		
Other	(519)				
Net cash provided by (used in) investing activities	17,937	(234,281)	(67,651)		(2)
Financing activities:					
Borrowings on notes payable			1,394,782		1,3
Repayments on notes payable			(1,411,295)		(1,4
Payments to amend and refinance credit facilities	(23,833)				(
Borrowings on revolving loan facility	2,228,500				2,2
Repayments on revolving loan facility	(2,280,000)				(2,2
Repayment of debt under 2009 Senior Secured Credit Facility	(750,000)				(7
Issuance of 6.375% Senior Notes	1,000,000				1,0
Borrowings on Accounts Receivable Securitization Facility			207,290		2
Repayments on Accounts Receivable Securitization Facility			(217,290)		(2
Proceeds from stock options exercised	5,938				
Other	1,639		(46)		
Net transactions with related entities	(576,901)	72,199	(45,783)	550,485	
Net cash provided by (used in) financing activities	(394,657)	72,199	(72,342)	550,485	1
Effect of changes in foreign exchange rates on cash			(16)		
Increase (decrease) in cash and cash equivalents	4,730	393	(395)		
Cash and cash equivalents at beginning of year	12,805	1,646	24,492		
Cash and cash equivalents at end of year	\$ 17,535	\$ 2,039	\$ 24,097	\$	\$

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	Condensed Consolidating Statement of Cash Flows				
	Year Ended January 2, 2010				
	Consolidating				
	Entries				
	Parent	Guarantor	Non-Guarantor	and	Consolidating
	Company	Subsidiaries	Subsidiaries	Eliminations	Consolidating
Net cash provided by (used in) operating activities	\$ 170,296	\$ 497,035	\$ 140,743	\$ (393,570)	\$ 4
Investing activities:					
Purchases of property, plant and equipment	(21,442)	(8,036)	(97,347)		(1)
Proceeds from sales of assets	32,931		5,034		
Other	(148)	16		148	
Net cash provided by (used in) investing activities	11,341	(8,020)	(92,313)	148	(
Financing activities:					
Borrowings on notes payable			1,628,764		1,6
Repayments on notes payable			(1,624,139)		(1,6
Incurrence of debt under 2009 Senior Secured Credit Facility	750,000				7
Payments to amend and refinance credit facilities	(71,826)		(3,150)		(
Borrowings on revolving loan facility	2,034,026				2,0
Repayments on revolving loan facility	(1,982,526)				(1,9
Repayment of debt under 2006 Senior Secured Credit Facility	(990,250)	(450,000)			(1,4
Issuance of 8% Senior Notes	500,000				5
Repurchase of Floating Rate Senior Notes	(2,788)				
Borrowings on Accounts Receivable Securitization Facility			183,451		1
Repayments on Accounts Receivable Securitization Facility			(326,068)		(3
Proceeds from stock options exercised	1,179				
Other	(815)		(32)		
Net transactions with related entities	(422,042)	(39,724)	68,344	393,422	
Net cash provided by (used in) financing activities	(185,042)	(489,724)	(72,830)	393,422	(3
Effect of changes in foreign exchange rates on cash			115		
Decrease in cash and cash equivalents	(3,405)	(709)	(24,285)		(
Cash and cash equivalents at beginning of year	16,210	2,355	48,777		
Cash and cash equivalents at end of year	\$ 12,805	\$ 1,646	\$ 24,492	\$	\$

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HANESBRANDS INC.
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Condensed Consolidating Statement of Cash Flows
Year Ended January 3, 2009

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 18,786	\$ 139,463	\$ 319,393	\$ (300,245)	\$ 177,397
Investing activities:					
Purchases of property, plant and equipment	(32,129)	(10,813)	(144,015)		(186,957)
Acquisition of businesses, net of cash acquired			(14,655)		(14,655)
Proceeds from sales of assets	20,612	38	4,358		25,008
Other	2,047	(91)	(1,772)	(828)	(644)
Net cash used in investing activities	(9,470)	(10,866)	(156,084)	(828)	(177,248)
Financing activities:					
Borrowings on notes payable			602,627		602,627
Repayments on notes payable			(560,066)		(560,066)
Payments to amend credit facilities	(48)	(10)	(11)		(69)
Borrowings on revolving loan facility	791,000				791,000
Repayments on revolving loan facility	(791,000)				(791,000)
Repayment of debt under 2006 Senior Secured Credit Facility	(125,000)				(125,000)
Repurchase of Floating Rate Senior Notes	(4,354)				(4,354)
Borrowings on Accounts Receivable Securitization Facility			20,944		20,944
Repayments on Accounts Receivable Securitization Facility			(28,327)		(28,327)
Proceeds from stock options exercised	2,191				2,191

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Stock repurchases	(30,275)				(30,275)
Transaction with Sara Lee Corporation	18,000				18,000
Other	(395)		(14)		(409)
Net transactions with related entities	62,299	(132,561)	(230,811)	301,073	
Net cash provided by (used in) financing activities	(77,582)	(132,571)	(195,658)	301,073	(104,738)
Effect of changes in foreign exchange rates on cash			(2,305)		(2,305)
Decrease in cash and cash equivalents	(68,266)	(3,974)	(34,654)		(106,894)
Cash and cash equivalents at beginning of year	84,476	6,329	83,431		174,236
Cash and cash equivalents at end of year	\$ 16,210	\$ 2,355	\$ 48,777	\$	\$ 67,342

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HANESBRANDS INC.
Notes to Consolidated Financial Statements (Continued)
Years ended January 1, 2011, January 2, 2010 and January 3, 2009
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(22) Restructuring

The Company has restructured its supply chain over the past three years to create more efficient production clusters that utilize fewer, larger facilities and to balance production capability between the Western Hemisphere and Asia. With its global supply chain infrastructure in place, the Company is focused long-term on optimizing its supply chain to further enhance efficiency, improve working capital and asset turns and reduce costs through several initiatives, such as supplier-managed inventory for raw materials and sourced goods ownership arrangements. The Company consolidated its distribution network by implementing new warehouse management systems and technology and adding new distribution centers and new third-party logistics providers to replace parts of its legacy distribution network, including relocating distribution capacity to its West Coast distribution facility in California in order to expand capacity for goods it sources from Asia.

The reported results for 2010, 2009 and 2008 reflect amounts recognized for restructuring actions, including the impact of certain actions that were completed for amounts more favorable than previously estimated. The impact of restructuring efforts on income before income tax expense is summarized as follows:

	January 1, 2011	Years Ended	
		January 2, 2010	January 3, 2009
Restructuring programs:			
Year ended January 2, 2010 restructuring actions	\$	\$ 46,216	\$
Year ended January 3, 2009 restructuring actions		17,833	87,111
Year ended December 29, 2007 restructuring actions		4,631	8,666
Six months ended December 30, 2006 and prior restructuring actions		1,068	(2,977)
	\$	\$ 69,748	\$ 92,800

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

	January 1, 2011	Years Ended	
		January 2, 2010	January 3, 2009
Cost of sales	\$	\$ 12,776	\$ 42,551
Selling, general and administrative expenses		3,084	(1,111)
Restructuring		53,888	50,266
	\$	\$ 69,748	\$ 92,800

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Components of the restructuring actions are as follows:

	Years Ended		
	January 1, 2011	January 2, 2010	January 3, 2009
Accelerated depreciation	\$	\$ 11,725	\$ 23,84
Inventory write-offs		4,135	18,69
Fixed asset impairments		7,503	8,99
Employee termination and other benefits		23,941	34,40
Noncancelable lease and other contractual obligations and other		22,444	6,86
	\$	\$ 69,748	\$ 92,80

Rollforward of accrued restructuring is as follows:

	Years Ended		
	January 1, 2011	January 2, 2010	January 3, 2009
Beginning accrual	\$ 22,399	\$ 21,793	\$ 23,35
Restructuring expenses		45,720	49,19
Cash payments	(16,357)	(42,282)	(41,18
Adjustments to restructuring expenses		(2,832)	(9,57
Ending accrual	\$ 6,042	\$ 22,399	\$ 21,79

The accrual balance as of January 1, 2011 is comprised of \$6,036 in current accrued liabilities and \$6 in other noncurrent liabilities. The \$6,036 in current accrued liabilities consists of \$2,713 for employee termination and other benefits and \$3,323 for noncancelable lease and other contractual obligations. The \$6 in other noncurrent liabilities primarily consists of noncancelable lease and other contractual obligations.

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

Year Ended January 2, 2010 Actions

During 2009, the Company approved actions to close eight manufacturing facilities, three distribution centers, a yarn warehouse and a cotton warehouse in the Dominican Republic, the United States, Costa Rica, Honduras, Puerto Rico and Canada, and eliminate an aggregate of approximately 4,100 positions in those countries and El Salvador. The production capacity represented by the manufacturing facilities has been primarily relocated to lower cost locations in Asia, Central America and the Caribbean Basin. The distribution capacity has been relocated to the Company's West Coast distribution center in California in order to expand capacity for goods the Company sources from Asia. In addition, approximately 300 management and administrative positions were eliminated, with the majority of these positions based in the United States. The Company recorded charges of \$46,216 in 2009, related to these actions. The Company recognized \$25,038 for employee termination and other benefits recognized in accordance with benefit plan

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previously communicated to the affected employee group, \$9,204 for accelerated depreciation of buildings and equipment, \$6,071 for noncancelable lease and other contractual obligations related to the closure of certain manufacturing facilities, \$3,529 for fixed asset impairments related to the closure of certain manufacturing facilities, \$1,635 for write-offs of stranded raw materials and work in process inventory determined

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Years ended January 1, 2011, January 2, 2010 and January 3, 2009****(amounts in thousands, except per share data)**

not to be salvageable or cost-effective to relocate related to the closure of certain manufacturing facilities and \$739 for other exit costs. These charges are reflected in the Restructuring, Cost of sales and Selling, and administrative expenses lines of the Consolidated Statements of Income. As of January 1, 2011, the severance obligation remaining in accrued restructuring on the Consolidated Balance Sheet was \$1,928. The noncancelable lease and other contractual obligations remaining in accrued restructuring on the Consolidated Balance Sheet as of January 1, 2011 was \$192.

During 2009, the Company ceased making its own yarn and now sources all of its yarn requirements from large-scale yarn suppliers. The Company entered into an agreement with Parkdale America, LLC (Parkdale America) under which the Company agreed to sell or lease assets related to operations at the Company s yarn manufacturing facilities to Parkdale America. The transaction closed in October 2009 and resulted in Parkdale America operating three of the four facilities. As discussed above, the Company approved an action to close the fourth yarn manufacturing facility, as well as a yarn warehouse and a cotton warehouse. The Company also entered into a yarn purchase agreement with Parkdale America and Parkdale Mills, LLC (together with Parkdale America, Parkdale). Under this agreement, which has an initial term of six years, Parkdale will produce and sell to the Company a substantial amount of the Company s Western Hemisphere yarn requirements. During the first two years of the term, Parkdale will also produce and sell to the Company a substantial amount of the yarn requirements of the Company s Nanjing, China textile facility.

Year Ended January 3, 2009 Actions

During 2008, the Company approved actions to close 11 manufacturing facilities and three distribution centers and eliminate approximately 6,800 positions in Mexico, the United States, Costa Rica, Honduras and El Salvador. The production capacity represented by the manufacturing facilities has been relocated to lower cost locations in Asia, Central America and the Caribbean Basin. The distribution capacity has been relocated to the Company s West Coast distribution facility in California in order to expand capacity for goods the Company sources from Asia. In addition, approximately 200 management and administrative positions were eliminated, with the majority of these positions based in the United States. All actions were substantially completed within a 12-month period. The Company recorded charges of \$87,117 in the year ended January 3, 2009. The Company recognized \$37,190 which represents employee termination and other benefits recognized in accordance with benefit plans previously communicated to the affected employee group, \$18,696 for write-offs of stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate related to the closure of certain manufacturing facilities, \$14,457 for accelerated depreciation of buildings and equipment, \$8,495 for noncancelable leases, other contractual obligations and other charges related to the closure of certain manufacturing facilities and \$8,279 for fixed asset impairments related to the closure of certain manufacturing facilities. These charges are reflected in the Restructuring, Cost of sales and Selling, general and administrative expenses lines of the Consolidated Statement of Income. As of January 1, 2011, the severance obligation remaining in accrued restructuring on the Consolidated Balance Sheet was \$785. The lease termination and other contractual obligations remaining in accrued restructuring on the Consolidated Balance Sheet as of January 1, 2011 was \$3,089.

During 2009, the Company recognized additional charges, as well as credits for certain actions which were completed for amounts more favorable than previously estimated, associated with facility closures announced in 2008, resulting in a decrease of \$17,833 to income before income tax expense. In 2009, the Company recognized charges of \$7,628 for noncancelable lease and other contractual obligations associated with plant closures announced in 2008, charges of \$7,620 for other exit costs, charges of \$2,732 for fixed asset impairments related to the closure of certain manufacturing facilities and charges of \$2,411 for write-offs of stranded raw materials and work in process inventory determined not to be salvageable or cost-effective to relocate related to the closure of certain manufacturing facilities. The Company recognized

credits of \$836 for employee termination and other benefits resulting from actual costs to settle obligations being lower than expected and credits of \$1,722 to accelerated depreciation as a result of proceeds from sale of fixed assets to which accelerated depreciation was

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previously charged exceeding previous estimates. These charges and credits are reflected in the Restructuring, and Cost of sales and Selling, general and administrative expenses lines of the Consolidated Statements of Income.

Year Ended December 29, 2007 Restructuring Actions

During 2007, the Company, in connection with its consolidation and globalization strategy, approved actions to close 16 manufacturing facilities and three distribution centers in the Dominican Republic, Mexico, the United States, Brazil and Canada. All actions were substantially completed within a 12-month period. The net impact of these actions was to reduce income before income tax expense by \$70,050 in the year ended December 29, 2007. As of January 1, 2011, there was no remaining severance obligation on the Consolidated Balance Sheet. The lease termination and other contractual obligations remaining in accrued restructuring on the Consolidated Balance Sheet as of January 1, 2011 was \$48.

During 2008, the Company recognized additional restructuring charges associated with plant closures announced in 2007, resulting in a decrease of \$8,661 to net income before income tax expense. The Company recognized charges of \$10,484 for accelerated depreciation of buildings and equipment associated with plant closures and charges of \$661 for lease termination costs, other contractual obligations and other restructuring related expenses. The additional charges are reflected in the Cost of sales, Selling, general and administrative expenses and Restructuring lines of the Consolidated Statements of Income.

During 2008, certain actions were completed for amounts more favorable than originally estimated, resulting in an increase of \$2,484 to income before income tax expense. The \$2,484 consists of a credit for employee termination and other benefits and resulted from actual costs to settle obligations being lower than expected. The adjustment is reflected in the Restructuring line of the Consolidated Statements of Income.

During 2009, the Company recognized additional restructuring charges associated with plant closures announced in 2007, resulting in a decrease of \$4,631 to income before income tax expense. In 2009, the Company recognized charges of \$4,222 for accelerated depreciation of buildings and equipment associated with plant closures and \$409 for other exit costs. These charges are reflected in the Restructuring, Cost of sales and Selling, general and administrative expenses lines of the Consolidated Statements of Income.

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