

Hanesbrands Inc.
Form 10-Q
May 07, 2008

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

FORM 10-Q

- ☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 29, 2008**
or
**☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number: 001-32891

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

Maryland
(State of incorporation)

20-3552316
(I.R.S. employer identification no.)

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

27105
(Zip code)

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

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

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

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

Accelerated filer
Smaller reporting company

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

As of May 1, 2008, there were 94,066,944 shares of the registrant's common stock outstanding.

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Trademarks, Trade Names and Service Marks

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

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FORWARD-LOOKING STATEMENTS

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

Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 29, 2007.

All forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 29, 2007. We undertake no obligation to update or revise forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You can inspect, read and copy these reports, proxy statements and other information at the public reference facilities the SEC maintains at 100 F Street, N.E., Washington, D.C. 20549.

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

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

	Quarter Ended	
	March 29, 2008	March 31, 2007
Net sales	\$ 987,847	\$ 1,039,894
Cost of sales	642,883	700,215
Gross profit	344,964	339,679
Selling, general and administrative expenses	254,612	254,567
Restructuring	2,558	16,246
Operating profit	87,794	68,866
Interest expense, net	40,394	51,717
Income before income tax expense	47,400	17,149
Income tax expense	11,376	5,145
Net income	\$ 36,024	\$ 12,004
Earnings per share:		
Basic	\$ 0.38	\$ 0.12
Diluted	\$ 0.38	\$ 0.12
Weighted average shares outstanding:		
Basic	94,344	96,475
Diluted	95,610	97,105

See accompanying notes to Condensed Consolidated Financial Statements.

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

	March 29, 2008	December 29, 2007
Assets		
Cash and cash equivalents	\$ 120,793	\$ 174,236
Trade accounts receivable, less allowances of \$19,775 at March 29, 2008 and \$31,642 at December 29, 2007	541,900	575,069
Inventories	1,223,979	1,117,052
Deferred tax assets and other current assets	238,579	227,977
Total current assets	2,125,251	2,094,334
Property, net	526,498	534,286
Trademarks and other identifiable intangibles, net	155,406	151,266
Goodwill	312,574	310,425
Deferred tax assets and other noncurrent assets	350,410	349,172
Total assets	\$ 3,470,139	\$ 3,439,483
Liabilities and Stockholders Equity		
Accounts payable	\$ 309,867	\$ 289,166
Accrued liabilities	359,436	380,239
Notes payable	14,562	19,577
Total current liabilities	683,865	688,982
Long-term debt	2,315,250	2,315,250
Other noncurrent liabilities	159,742	146,347
Total liabilities	3,158,857	3,150,579
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	94,056,351 at March 29, 2008 and 95,232,478 at December 29, 2007	954
Additional paid-in capital	204,418	199,019
Retained earnings	146,304	117,849
Accumulated other comprehensive loss	(40,381)	(28,918)
Total stockholders equity	311,282	288,904

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Total liabilities and stockholders' equity	\$	3,470,139	\$	3,439,483
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See accompanying notes to Condensed Consolidated Financial Statements.

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

	Quarter Ended	
	March 29, 2008	March 31, 2007
Operating activities:		
Net income	\$ 36,024	\$ 12,004
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	23,591	26,610
Amortization of intangibles	2,673	1,560
Restructuring	(1,119)	(633)
Amortization of debt issuance costs	1,506	1,625
Stock compensation expense	6,918	9,564
Deferred taxes and other	(2,871)	(3,833)
Changes in assets and liabilities:		
Accounts receivable	36,183	(24,806)
Inventories	(103,597)	(36,865)
Other assets	(7,061)	15,790
Accounts payable	18,315	10,690
Accrued liabilities	(30,043)	(12,297)
Net cash used in operating activities	(19,481)	(591)
Investing activities:		
Purchases of property and equipment	(27,580)	(7,394)
Proceeds from sales of assets	7,070	4,528
Other		(634)
Net cash used in investing activities	(20,510)	(3,500)
Financing activities:		
Principal payments on capital lease obligations	(263)	(277)
Borrowings on notes payable	17,747	8,992
Repayments on notes payable	(23,295)	(11,204)
Cost of debt issuance		(1,774)
Decrease in bank overdraft		(834)
Proceeds from stock options exercised	339	2,338
Stock repurchases	(8,277)	
Borrowing on accounts receivable securitization	19,220	
Repayments on accounts receivable securitization	(19,220)	
Other	9	

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Net cash used in financing activities	(13,740)	(2,759)
Effect of changes in foreign exchange rates on cash	288	167
Decrease in cash and cash equivalents	(53,443)	(6,683)
Cash and cash equivalents at beginning of year	174,236	155,973
Cash and cash equivalents at end of period	\$ 120,793	\$ 149,290

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS

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

(1) Basis of Presentation

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

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

Certain prior year amounts in the condensed consolidated financial statements have been reclassified to conform with the current year presentation. These reclassifications, which relate to changes in the classification of inventory, segment assets, segment depreciation and amortization expense, segment additions to long-lived assets and consolidating financial information, had no impact on the Company's results of operations.

(2) Recently Issued Accounting Pronouncements

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for the Company's financial assets and liabilities on December 30, 2007. The FASB approved a one-year deferral of the adoption of SFAS 157 as it relates to non-financial assets and liabilities with the issuance in February 2008 of FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, as a result of which implementation by the Company is now required on January 4, 2009. The partial adoption of SFAS 157 in the first quarter ended March 29, 2008 had no material impact on the financial condition, results of operations or cash flows of the Company, but resulted in certain additional disclosures reflected in Note 8.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be

measured at fair value under generally accepted accounting principles and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of SFAS 159 became effective for the Company on December 30, 2007. As permitted by SFAS 159, the Company elected not to adopt the fair value option.

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HANESBRANDS

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

Business Combinations

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

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 (SFAS 160). The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a company provides in its consolidated financial statements. SFAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; that changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, that any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not believe that the adoption of SFAS 160 will have a material impact on its results of operations or financial position.

Disclosures About Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 expands the disclosure requirements of FASB Statement No. 133 about an entity's derivative instruments and hedging activities to include more detailed qualitative disclosures and expanded quantitative disclosures. The provisions of SFAS 161 are effective for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact that SFAS 161 will have on its results of operations and financial position.

(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 at March 29, 2008 and March 31, 2007. Diluted EPS was

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

calculated to give effect to all potentially dilutive shares of common stock. The reconciliation of basic to diluted weighted average shares for the quarters ended March 29, 2008 and March 31, 2007 is as follows:

	Quarter Ended	
	March 29,	March 31,
	2008	2007
Basic weighted average shares	94,344	96,475
Effect of potentially dilutive securities:		
Stock options	298	171
Restricted stock units	966	459
Employee stock purchase plan	2	
Diluted weighted average shares	95,610	97,105

Options to purchase 2,478 and 2,554 shares of common stock were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive for the quarters ended March 29, 2008 and March 31, 2007, respectively.

(4) Stock-Based Compensation

During the first quarter ended March 29, 2008, the Company granted options to purchase 1,340 shares of common stock pursuant to the Hanesbrands Inc. Omnibus Incentive Plan of 2006 (the Omnibus Plan) at an exercise price of \$25.10 per share, which was the closing price of Hanesbrands' stock on the date of grant. These options can be exercised over a term of seven years and vest ratably over one to three years. The fair value of each option granted during the first quarter ended March 29, 2008 was estimated as of the date of grant using the Black-Scholes option-pricing model using the following assumptions: volatility of 28%; expected terms of 3.8 - 4.5 years; dividend yield of 0%; and risk-free interest rates ranging from 2.45% to 2.64%. The Company uses the volatility of peer companies for a period of time that is comparable to the expected life of the option to determine volatility assumptions due to the limited trading history of the Company's common stock since the Company's spin off from Sara Lee Corporation (Sara Lee) on September 5, 2006. The Company utilized the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the first quarter ended March 29, 2008. SEC Staff Accounting Bulletin No. 110, which was issued in December 2007, amends SEC Staff Accounting Bulletin No. 107 and gives a limited extension on using the simplified method for valuing stock option grants to eligible public companies that do not have sufficient historical exercise patterns on options granted to employees. The weighted average fair value of individual options granted during the first quarter ended March 29, 2008 was \$7.04.

During the first quarter ended March 29, 2008, the Company granted 540 restricted stock units (RSUs) pursuant to the Omnibus Plan. Upon the achievement of defined service conditions, the RSUs are converted into shares of the Company's common stock on a one-for-one basis and issued to the grantees. All RSUs vest solely upon continued

future service to the Company. 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. The grant date fair value of the RSUs was \$25.10.

During the first quarter ended March 29, 2008 and March 31, 2007, 34 and 0 shares, respectively, were purchased under the Hanesbrands Inc. Employee Stock Purchase Plan of 2006 (the ESPP) by eligible employees. The Company had 2,330 shares of common stock available for issuance under the ESPP as of March 29, 2008.

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

(5) Restructuring

Over the past several years, the Company has undertaken a variety of restructuring efforts in connection with its consolidation and globalization strategy designed to improve operating efficiencies and lower costs. As a result of these efforts, the Company expects to incur approximately \$250,000 in restructuring and related charges over the three year period following the spin off from Sara Lee on September 5, 2006, of which approximately half is expected to be noncash. As of March 29, 2008, the Company has recognized approximately \$122,000 in restructuring and related charges related to these efforts since September 5, 2006. Of these charges, approximately \$46,000 relates to employee termination and other benefits, approximately \$64,000 relates to accelerated depreciation of buildings and equipment for facilities that have been or will be closed, and approximately \$12,000 relates to lease termination and other costs. Accelerated depreciation related to the Company's manufacturing facilities and distribution centers that have been or will be closed is reflected in the Cost of sales and Selling, general and administrative expenses lines of the Condensed Consolidated Statements of Income.

The impact of restructuring on income before income tax expense is summarized as follows:

	Quarter Ended	
	March 29, 2008	March 31, 2007
Restructuring programs:		
Year ended January 3, 2009 restructuring actions	\$ 2,942	\$
Year ended December 29, 2007 restructuring actions	2,856	7,648
Six months ended December 30, 2006 restructuring actions	13	13,648
Year ended July 1, 2006 and prior restructuring actions	(52)	217
Decrease in income before income tax expense	\$ 5,759	\$ 21,513

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

	Quarter Ended	
	March 29, 2008	March 31, 2007
Cost of sales	\$ 2,558	\$ 5,267
Selling, general and administrative expenses	643	
Restructuring	2,558	16,246

Decrease in income before income tax expense	\$ 5,759	\$ 21,513
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Components of the restructuring actions are as follows:

	Quarter Ended	
	March 29, 2008	March 31, 2007
Accelerated depreciation	\$ 3,201	\$ 5,267
Employee termination and other benefits	2,558	6,015
Noncancelable lease and other contractual obligations		10,231
	\$ 5,759	\$ 21,513

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

Rollforward of accrued restructuring is as follows:

	Quarter Ended March 29, 2008
Beginning accrual	\$ 23,350
Restructuring expenses	3,677
Cash payments	(7,225)
Adjustments to restructuring expenses	(1,119)
Ending accrual	\$ 18,683

The accrual balance as of March 29, 2008 is comprised of \$15,138 in current accrued liabilities and \$3,545 in other noncurrent liabilities in the Condensed Consolidated Balance Sheet. The noncurrent portion is primarily related to lease termination payments.

Adjustments to previous estimates are primarily attributable to employee termination and other benefits and resulted from actual costs to settle obligations being lower than expected. The adjustments were reflected in the Restructuring line of the Condensed Consolidated Statements of Income.

Year Ended January 3, 2009 Actions

During the first quarter of 2008, the Company approved actions to close two manufacturing facilities and eliminate approximately 1,100 employees in Heredia, Costa Rica and Aguascalientes, Mexico during the next twelve months. This production capacity will be relocated to lower cost locations in Asia and Central America. The Company recorded a charge of \$2,942 primarily attributable to employee termination and other benefits recognized in accordance with benefit plans previously communicated to the affected employee group. This charge is reflected in the Restructuring line of the Condensed Consolidated Statement of Income. All actions are expected to be completed within a 12-month period.

(6) Inventories

Inventories consisted of the following:

	March 29, 2008	December 29, 2007
Raw materials	\$ 164,400	\$ 176,758

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Work in process	170,262	122,724
Finished goods	889,317	817,570
	\$ 1,223,979	\$ 1,117,052

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

(7) Long-Term Debt

The Company had the following long-term obligations at March 29, 2008 and December 29, 2007:

	Interest Rate as of March 29, 2008	Principal Amount	
		March 29, 2008	December 29, 2007
Senior Secured Credit Facility:			
Term A	4.59%	\$ 139,000	\$ 139,000
Term B	4.89%	976,250	976,250
Second Lien Credit Facility	6.99%	450,000	450,000
Floating Rate Senior Notes	8.20%	500,000	500,000
Accounts Receivable Securitization	3.75%	250,000	250,000
		\$ 2,315,250	\$ 2,315,250

As of March 29, 2008, the Company had \$0 outstanding under the Senior Secured Credit Facility's \$500,000 Revolving Loan Facility and \$64,389 of standby and trade letters of credit issued and outstanding under this facility.

Availability of funding under the accounts receivable securitization depends primarily upon the eligible outstanding receivables balance. As of March 29, 2008, the Company had \$250,000 outstanding under the accounts receivable securitization. The total amount of receivables used as collateral for the accounts receivable securitization was \$460,658 and \$495,245 at March 29, 2008 and December 29, 2007, respectively, and is reported on the Company's Condensed Consolidated Balance Sheets in trade accounts receivables less allowances.

(8) Fair Value of Financial Assets and Liabilities

The Company has adopted the provisions of SFAS 157 as of December 30, 2007 for its financial assets and liabilities. Although this partial adoption of SFAS 157 had no material impact its financial condition, results of operations or cash flows, the Company is now required to provide additional disclosures as part of its financial statements. SFAS 157 clarifies that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability. SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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

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

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

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

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

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

As of March 29, 2008, the Company held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis. These consisted of the Company's derivative instruments related to interest rates, foreign exchange rates and cotton. The fair values of cotton derivatives are determined based on quoted prices in public markets and are categorized as Level 1. The fair values of interest rate and foreign exchange rate derivatives are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2. The Company does not have any financial assets or liabilities measured at fair value on a recurring basis categorized as Level 3, and there were no transfers in or out of Level 3 during the quarter ended March 29, 2008. There were no changes to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis.

The following table sets forth by level within SFAS 157's fair value hierarchy of the Company's financial assets and liabilities accounted for at fair value on a recurring basis at March 29, 2008. As required by SFAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Assets (Liabilities) at Fair Value as of March 29, 2008		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative contracts, net	\$ (173)	\$ (32,726)	\$
Total	\$ (173)	\$ (32,726)	\$

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

(9) Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, requires that all components of comprehensive income, including net income, be reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income and other comprehensive income, including foreign currency translation adjustments, amounts amortized into net periodic benefit cost as required by SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, and unrealized gains and

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

losses on qualifying cash flow hedges, are combined, net of their related tax effect, to arrive at comprehensive income. The Company's comprehensive income is as follows:

	Quarter Ended	
	March 29, 2008	March 31, 2007
Net income	\$ 36,024	\$ 12,004
Translation adjustments	(1,530)	473
Net unrealized loss on qualifying cash flow hedges, net of tax of \$6,307 and \$1,484, respectively	(9,906)	(2,331)
Amounts amortized into net periodic income:		
Prior service cost (benefit), net of tax of \$4 and \$779, respectively	6	(1,224)
Actuarial loss, net of tax of \$15 and \$362, respectively	24	569
Comprehensive income	\$ 24,618	\$ 9,491

(10) Income Taxes

For the quarters ended March 29, 2008 and March 31, 2007, income taxes have been computed consistent with Accounting Principles Board Opinion No. 28, Interim Financial Reporting and FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods.

The difference in the estimated annual effective income tax rates of 24% and 30% for the quarters ended March 29, 2008 and March 31, 2007, respectively, and the U.S. statutory rate of 35.0% is primarily attributable to unremitted earnings of foreign subsidiaries taxed at rates less than the U.S. statutory rate. The Company's estimated annual effective tax rate is reflective of its strategic initiative to make substantial capital investments outside the United States in its global supply chain in 2008.

Within 180 days after Sara Lee files its final consolidated tax return for the period that includes September 5, 2006, which is expected to occur by September 2008, Sara Lee is required to deliver to the Company a computation of the amount of deferred taxes attributable to the Company's United States and Canadian operations that would be included on the Company's balance sheet as of September 6, 2006. If substituting the amount of deferred taxes as finally determined for the amount of estimated deferred taxes that were included on that balance sheet at the time of the spin off causes a decrease in the net book value reflected on that balance sheet, then Sara Lee will be required to pay the Company the amount of such decrease. If such substitution causes an increase in the net book value reflected on that balance sheet, then the Company will be required to pay Sara Lee the amount of such increase.

(11) Business Segment Information

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

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

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

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Notes to Condensed Consolidated Financial Statements (Continued)
(dollars and shares in thousands, except per share data)
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Outerwear sells basic branded products that are seasonal in nature under the product categories of casualwear and activewear.

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

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

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

The Company evaluates the operating performance of its segments based upon segment operating profit, which is defined as operating profit before general corporate expenses, amortization of trademarks and other identifiable intangibles and restructuring and related accelerated depreciation charges. The accounting policies of the segments are consistent with those described in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 29, 2007.

Certain prior year segment assets, depreciation and amortization expense and additions to long-lived assets disclosures have been revised to conform to the current year presentation.

	Quarter Ended	
	March 29, 2008	March 31, 2007
Net sales:		
Innerwear	\$ 543,730	\$ 590,447
Outerwear	272,205	283,635
Hosiery	66,741	73,693
International	104,636	90,777
Other	11,121	15,398
Total segment net sales(1)	998,433	1,053,950
Intersegment(2)	(10,586)	(14,056)
Total net sales	\$ 987,847	\$ 1,039,894

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

	Quarter Ended	
	March 29, 2008	March 31, 2007
Segment operating profit:		
Innerwear	\$ 53,675	\$ 75,968
Outerwear	16,417	6,100
Hosiery	24,121	20,045
International	14,804	7,778
Other	(840)	(775)
 Total segment operating profit	 108,177	 109,116
Items not included in segment operating profit:		
General corporate expenses	(11,951)	(17,177)
Amortization of trademarks and other identifiable intangibles	(2,673)	(1,560)
Restructuring	(2,558)	(16,246)
Accelerated depreciation included in cost of sales	(2,558)	(5,267)
Accelerated depreciation included in selling, general and administrative expenses	(643)	
 Total operating profit	 87,794	 68,866
Interest expense, net	(40,394)	(51,717)
 Income before income tax expense	 \$ 47,400	 \$ 17,149
	March 29, 2008	December 29, 2007
Assets:		
Innerwear	\$ 1,278,246	\$ 1,247,441
Outerwear	792,845	754,178
Hosiery	97,449	97,804
International	236,351	232,142
Other	15,391	16,807
	2,420,282	2,348,372
Corporate(3)	1,049,857	1,091,111
 Total assets	 \$ 3,470,139	 \$ 3,439,483

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

	Quarter Ended	
	March 29, 2008	March 31, 2007
Depreciation and amortization expense:		
Innerwear	\$ 10,551	\$ 11,319
Outerwear	7,130	6,897
Hosiery	1,631	2,542
International	423	821
Other	337	133
	20,072	21,712
Corporate	6,192	6,458
Total depreciation and amortization expense	\$ 26,264	\$ 28,170

	Quarter Ended	
	March 29, 2008	March 31, 2007
Additions to long-lived assets:		
Innerwear	\$ 7,402	\$ 3,861
Outerwear	13,002	1,937
Hosiery	79	304
International	474	360
Other	3	7
	20,960	6,469
Corporate	6,620	925
Total additions to long-lived assets	\$ 27,580	\$ 7,394

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

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

	Quarter Ended	
	March 29, 2008	March 31, 2007
Innerwear	\$ 1,356	\$ 1,725
Outerwear	5,430	6,798
Hosiery	3,131	4,824
International	669	709
Other		
Total	\$ 10,586	\$ 14,056

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

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HANESBRANDS

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

(12) Consolidating Financial Information

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

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

The Floating Rate Senior Notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary, each of which is wholly owned, directly or indirectly, by Hanesbrands Inc. Each entity in the consolidating financial information follows the same accounting policies as described in the Company's Consolidated Financial Statements included in its Annual Report on Form 10-K for the year ended December 29, 2007, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated upon consolidation.

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

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

Condensed Consolidating Statement of Income
Quarter Ended March 29, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	\$ 1,023,459	\$ 97,446	\$ 644,959	\$ (778,017)	\$ 987,847
Cost of sales	801,169	39,213	560,838	(758,337)	642,883
Gross profit	222,290	58,233	84,121	(19,680)	344,964
Selling, general and administrative expenses	219,300	21,591	13,274	447	254,612
Restructuring	(515)		3,073		2,558
Operating profit (loss)	3,505	36,642	67,774	(20,127)	87,794
Equity in earnings (loss) of subsidiaries	63,706	36,777		(100,483)	
Interest expense, net	26,343	8,891	5,160		40,394
Income (loss) before income tax expense (benefit)	40,868	64,528	62,614	(120,610)	47,400
Income tax expense (benefit)	4,844	2,118	4,414		11,376
Net income (loss)	\$ 36,024	\$ 62,410	\$ 58,200	\$ (120,610)	\$ 36,024

Condensed Consolidating Statement of Income
Quarter Ended March 31, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net sales	\$ 1,042,703	\$ 202,596	\$ 599,701	\$ (805,106)	\$ 1,039,894
Cost of sales	805,905	150,407	536,603	(792,700)	700,215
Gross profit	236,798	52,189	63,098	(12,406)	339,679
Selling, general and administrative expenses	220,847	3,582	24,516	5,622	254,567
Restructuring	15,901		345		16,246

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Operating profit (loss)	50	48,607	38,237	(18,028)	68,866
Equity in earnings (loss) of subsidiaries	52,674	25,305		(77,979)	
Interest expense, net	41,388	10,637	(301)	(7)	51,717
Income (loss) before income tax expense (benefit)	11,336	63,275	38,538	(96,000)	17,149
Income tax expense (benefit)	(668)	1,173	4,640		5,145
Net income (loss)	\$ 12,004	\$ 62,102	\$ 33,898	\$ (96,000)	\$ 12,004

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

Condensed Consolidating Balance Sheet
March 29, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 26,396	\$ 1,958	\$ 92,439	\$	\$ 120,793
Trade accounts receivable	(2,271)	8,053	538,184	(2,066)	541,900
Inventories	932,683	49,604	292,780	(51,088)	1,223,979
Deferred tax assets and other current assets	196,443	6,925	37,699	(2,488)	238,579
Total current assets	1,153,251	66,540	961,102	(55,642)	2,125,251
Property, net	267,769	7,645	251,084		526,498
Trademarks and other identifiable intangibles, net	31,320	118,494	5,592		155,406
Goodwill	232,883	16,934	62,757		312,574
Investments in subsidiaries	477,770	614,871		(1,092,641)	
Deferred tax assets and other noncurrent assets	307,611	268,655	(164,610)	(61,246)	350,410
Total assets	\$ 2,470,604	\$ 1,093,139	\$ 1,115,925	\$ (1,209,529)	\$ 3,470,139
Liabilities and Stockholders					
Equity					
Accounts payable	\$ 137,755	\$ 2,825	\$ 83,640	\$ 85,647	\$ 309,867
Accrued liabilities	274,705	23,982	63,389	(2,640)	359,436
Notes payable			14,562		14,562
Total current liabilities	412,460	26,807	161,591	83,007	683,865
Long-term debt	1,615,250	450,000	250,000		2,315,250
Other noncurrent liabilities	131,612	1,693	22,009	4,428	159,742
Total liabilities	2,159,322	478,500	433,600	87,435	3,158,857
Stockholders' equity	311,282	614,639	682,325	(1,296,964)	311,282
Total liabilities and stockholders' equity	\$ 2,470,604	\$ 1,093,139	\$ 1,115,925	\$ (1,209,529)	\$ 3,470,139

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

Condensed Consolidating Balance Sheet
December 29, 2007

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

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

Condensed Consolidating Statement of Cash Flows
Quarter Ended March 29, 2008

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ (45,823)	\$ 36,758	\$ 91,516	\$ (101,932)	\$ (19,481)
Investing activities:					
Purchases of property and equipment	(6,971)	(1,879)	(18,730)		(27,580)
Proceeds from sales of assets	6,172		898		7,070
Other	2,750		(2,199)	(551)	
Net cash provided by (used in) investing activities	1,951	(1,879)	(20,031)	(551)	(20,510)
Financing activities:					
Principal payments on capital lease obligations	(263)				(263)
Borrowings on notes payable			17,747		17,747
Repayments on notes payable			(23,295)		(23,295)
Proceeds from stock options exercised	339				339
Stock repurchases	(8,277)				(8,277)
Borrowing on accounts receivable securitization			19,220		19,220
Repayments on accounts receivable securitization			(19,220)		(19,220)
Other	9				9
Net transactions with related entities	(6,016)	(39,250)	(57,217)	102,483	
Net cash provided by (used in) financing activities	(14,208)	(39,250)	(62,765)	102,483	(13,740)
Effect of changes in foreign exchange rates on cash			288		288
	(58,080)	(4,371)	9,008		(53,443)

Increase (decrease) in cash and cash equivalents

Cash and cash equivalents at beginning of year

84,476	6,329	83,431	174,236
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Cash and cash equivalents at end of period

\$ 26,396	\$ 1,958	\$ 92,439	\$ 120,793
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Notes to Condensed Consolidated Financial Statements (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)

Condensed Consolidating Statement of Cash Flows
Quarter Ended March 31, 2007

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$ 26,141	\$ 30,577	\$ 20,966	\$ (78,275)	\$ (591)
Investing activities:					
Purchases of property and equipment	(5,473)	(235)	(1,686)		(7,394)
Proceeds from sales of assets	414	1,162	2,952		4,528
Other	(366)	84	(709)	357	(634)
Net cash provided by (used in) investing activities	(5,425)	1,011	557	357	(3,500)
Financing activities:					
Principal payments on capital lease obligations	(262)	(15)			(277)
Borrowings on notes payable			8,992		8,992
Repayments on notes payable			(11,204)		(11,204)
Cost of debt issuance	(1,774)				(1,774)
Decrease in bank overdraft			(834)		(834)
Proceeds from stock options exercised	2,338				2,338
Net transactions with related entities	(47,711)	(26,106)	(4,101)	77,918	
Net cash provided by (used in) financing activities	(47,409)	(26,121)	(7,147)	77,918	(2,759)
Effect of changes in foreign exchange rates on cash			167		167
Increase (decrease) in cash and cash equivalents	(26,693)	5,467	14,543		(6,683)
Cash and cash equivalents at beginning of year	60,960	(1,251)	96,264		155,973

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Cash and cash equivalents at end of period	\$ 34,267	\$ 4,216	\$ 110,807	\$ 149,290
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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 for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 29, 2007, which were included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those included elsewhere in this Quarterly Report on Form 10-Q and those included in our Annual Report on Form 10-K.

Overview

We are a consumer goods company with a portfolio of leading apparel brands, including *Hanes*, *Champion*, *Playtex*, *Bali*, *Just My Size*, *barely there* and *Wonderbra*. We design, manufacture, source and sell a broad range of apparel essentials such as t-shirts, bras, panties, men's underwear, kids' underwear, socks, hosiery, casualwear and activewear.

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

Innerwear. The Innerwear segment focuses on core apparel essentials, and consists of products such as women's intimate apparel, men's underwear, kids' underwear, socks, thermals and sleepwear, marketed under well-known brands that are trusted by consumers. We are an intimate apparel category leader in the United States with our *Hanes*, *Playtex*, *Bali*, *Just My Size*, *barely there*, and *Wonderbra* brands. We are also a leading manufacturer and marketer of men's underwear and kids' underwear under the *Hanes* and *Champion* brand names. Our net sales for the first quarter ended March 29, 2008 from our Innerwear segment were \$544 million, representing approximately 54% of total segment net sales.

Outerwear. We are a leader in the casualwear and activewear markets through our *Hanes*, *Champion* and *Just My Size* brands, where we offer products such as t-shirts and fleece. Our casualwear lines offer a range of quality, comfortable clothing for men, women and children marketed under the *Hanes* and *Just My Size* brands. The *Just My Size* brand offers casual apparel designed exclusively to meet the needs of plus-size women. In addition to activewear for men and women, *Champion* provides uniforms for athletic programs and includes an apparel program, *C9 by Champion*, at Target stores. We also license our *Champion* name for collegiate apparel and footwear. We also supply our t-shirts, sportshirts and fleece products primarily to wholesalers, who then resell to screen printers and embellishers, through brands such as *Hanes*, *Champion* and *Outer Banks*. Our net sales for the first quarter ended March 29, 2008 from our Outerwear segment were \$272 million, representing approximately 27% of total segment net sales.

Hosiery. We are the leading marketer of women's sheer hosiery in the United States. We compete in the hosiery market by striving to offer superior values and executing integrated marketing activities, as well as focusing on the style of our hosiery products. We market hosiery products under our *Hanes*, *L eggs* and *Just My Size* brands. Our net sales for the first quarter ended March 29, 2008 from our Hosiery segment were \$67 million, representing approximately 7% of total segment net sales. We expect the trend of declining

hosiery sales to continue consistent with the overall decline in the industry and with shifts in consumer preferences.

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International. International includes products that span across the Innerwear, Outerwear and Hosiery reportable segments and include products marketed under the *Hanes, Champion, Wonderbra, Playtex, Rinbros, Bali* and *Stedman* brands. Our net sales for the first quarter ended March 29, 2008 from our International segment were \$105 million, representing approximately 11% of total segment net sales and included sales in Latin America, Asia, Canada and Europe. Japan, Canada and Mexico are our largest international markets, and we also have sales offices in India and China.

Other. Our net sales for the first quarter ended March 29, 2008 in our Other segment were \$11 million, representing approximately 1% of total segment net sales and are comprised of sales of nonfinished products such as fabric and certain other materials in the United States and Latin America in order to maintain asset utilization at certain manufacturing facilities and generate break even margins.

Our operating results are subject to some variability. Generally, our diverse range of product offerings helps mitigate the impact of seasonal changes in demand for certain items. Sales are typically higher in the last two quarters (July to December) of each fiscal year. Socks, hosiery and fleece products generally have higher sales during this period as a result of cooler weather, back-to-school shopping and holidays. Sales levels in a period are also impacted by customers' decisions to increase or decrease their inventory levels in response to anticipated consumer demand. Our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice to us. Our results of operations are also impacted by fluctuations and volatility in the price of cotton and the timing of actual spending for our media, advertising and promotion expenses. Media, advertising and promotion expenses may vary from period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions. Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. While we do enter into short-term supply agreements and hedges in an attempt to protect our business from the volatility of the market price of cotton, our business can be affected by dramatic movements in cotton prices, although cotton has historically represented only 6% of our cost of sales. Cotton prices were 54 cents per pound in the first quarter of 2008 as compared to 56 cents per pound in the first quarter of 2007. Taking into consideration the agreements that we currently have in effect and cotton costs currently included in inventory, we expect our cost of cotton to average 66 cents per pound for the full year 2008. The price of cotton currently in our inventory has risen to the 70 cents per pound range which is the price that will impact our operating results in the third and fourth quarters of 2008. Additionally, the prices for the cotton crop grown this coming summer season, which will impact our operating results in 2009, have risen to the upper 70 cents per pound range.

Highlights from the First Quarter Ended March 29, 2008

Diluted earnings per share were \$0.38 in the first quarter of 2008, compared with \$0.12 in 2007.

Operating profit was \$88 million in the first quarter of 2008, up from \$69 million in 2007.

Total net sales in the first quarter of 2008 were lower by \$52 million at \$988 million compared to 2007.

We approved actions to close two manufacturing facilities in Heredia, Costa Rica and Aguascalientes, Mexico during the first quarter of 2008. In addition, we completed several actions in the first quarter of 2008 that were announced in 2007.

Capital expenditures were \$28 million during the first quarter of 2008 as we continued to build out our textile and sewing network in Asia and Central America.

Using cash flow from operating activities, we repurchased \$8 million of company stock during the first quarter of 2008.

The net sales decline was broad based affecting most product categories and most customers. The overall lower net sales were primarily due to a decline in sales volume across most product categories in our key brands *Hanes*, *Champion*, *Bali*, *Just My Size* and *barely there*. *Playtex* brand net sales were flat compared to last year. Net sales in the Hosiery segment were lower primarily due to lower sales of the *Hanes* brand to national chains and department stores and the *L eggs* brand to mass retailers and food and drug stores. We expect the trend of declining hosiery sales to continue consistent with the overall decline in the industry and with shifts in consumer preferences.

The lower net sales were partially offset by higher net sales in the International segment that were driven by a favorable impact of \$11 million related to foreign currency exchange rates. The favorable impact was primarily due to the strengthening of the Canadian dollar, Euro, Japanese yen and Brazilian real and by the growth in the European casualwear business.

Table of Contents***Gross Profit***

	Quarter Ended			
	March 29, 2008	March 31, 2007	Higher (Lower)	Percent Change
	(dollars in thousands)			
Gross profit	\$ 344,964	\$ 339,679	\$ 5,285	1.6%

As a percent of net sales, our gross profit percentage was 34.9% in the first quarter of 2008 compared to 32.7% in 2007. The higher gross profit percentage was primarily due to \$11 million of savings from our cost reduction initiatives and prior restructuring actions, \$11 million of lower production costs, a \$5 million favorable impact related to foreign currency exchange rates, and lower accelerated depreciation of \$3 million. The favorable foreign currency exchange rate impact in our International segment was primarily due to the strengthening of the Canadian dollar, Euro, Japanese yen and Brazilian real.

These lower costs were partially offset by \$19 million of lower sales volume, higher freight costs of \$5 million primarily due to a greater use of air freight and higher sales incentives of \$2 million.

Our per pound cotton costs were \$2 million lower in the first quarter of 2008 as compared to 2007. The cotton prices reflected in our results were 54 cents per pound in the first quarter of 2008 as compared to 56 cents per pound in 2007. After taking into consideration the agreements that we currently have in effect and cotton costs currently included in inventory, we expect our cost of cotton to average 66 cents per pound for the full year 2008.

Selling, General and Administrative Expenses

	Quarter Ended			
	March 29, 2008	March 31, 2007	Higher (Lower)	Percent Change
	(dollars in thousands)			
Selling, general and administrative expenses	\$ 254,612	\$ 254,567	\$ 45	0.0%

Our selling, general and administrative expenses were flat in the first quarter of 2008 compared to 2007. Our cost reduction efforts have allowed us to offset higher investments in our strategic initiatives of higher media related media, advertising and promotion expenses (MAP) of \$10 million and higher technology consulting expenses of \$9 million during the first quarter of 2008. Our media related MAP expenses were higher in the first quarter of 2008 to support the launch of *Hanes No Ride Up Panties* and marketing initiatives for *Playtex*.

The higher expenses were offset by \$8 million of savings from our prior restructuring actions primarily for compensation and related benefits, \$4 million of lower pension expense, \$2 million of lower stock compensation expense, \$2 million of lower distribution expenses and \$2 million of lower non-media related MAP expenses. 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.

Restructuring

