

Hanesbrands Inc.  
Form 10-Q  
November 05, 2007

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

FORM 10-Q

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

For the quarterly period ended September 29, 2007

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)*

**1000 East Hanes Mill Road**

**Winston-Salem, North Carolina**

*(Address of principal executive office)*

**20-3552316**

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

**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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 November 1, 2007, there were 95,209,657 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* and *L eggs* 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 and other materials we have filed or will file with the Securities and Exchange Commission, or the SEC, contain, or will contain, certain forward-looking statements regarding business strategies, market potential, future financial performance and other matters. 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. In part, the 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 affect our financial results is included from time to time in our reports filed with the Securities and Exchange Commission, including our Report on Form 10-KT for the six months ended December 30, 2006.

All forward-looking statements contained in this Quarterly Report on Form 10-Q and the related risks, uncertainties and other factors speak only as of the date of this Quarterly Report on Form 10-Q. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any other change in events, conditions or circumstances on which any such statement is based, other than as required by law.

**WHERE YOU CAN FIND MORE INFORMATION**

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

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

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

|  | <b>Quarter Ended</b>          |                               | <b>Nine Months Ended</b>      |                               |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |
| Net sales                                    | \$ 1,153,606                  | \$ 1,118,968                  | \$ 3,315,407                  | \$ 3,271,961                  |
| Cost of sales                                | 792,587                       | 753,337                       | 2,234,352                     | 2,183,977                     |
| Gross profit                                 | 361,019                       | 365,631                       | 1,081,055                     | 1,087,984                     |
| Selling, general and administrative expenses | 253,233                       | 262,426                       | 773,817                       | 808,393                       |
| Restructuring                                | 2,062                         | 9,313                         | 44,533                        | 9,551                         |
| Operating profit                             | 105,724                       | 93,892                        | 262,705                       | 270,040                       |
| Other expenses                               | 889                           |                               | 1,440                         |                               |
| Interest expense, net                        | 49,270                        | 17,569                        | 152,217                       | 26,437                        |
| Income before income tax expense             | 55,565                        | 76,323                        | 109,048                       | 243,603                       |
| Income tax expense                           | 16,669                        | 25,978                        | 32,714                        | 59,381                        |
| Net income                                   | \$ 38,896                     | \$ 50,345                     | \$ 76,334                     | \$ 184,222                    |
| Earnings per share:                          |                               |                               |                               |                               |
| Basic  | \$ 0.41                       | \$ 0.52                       | \$ 0.79                       | \$ 1.91                       |
| Diluted                                      | \$ 0.40                       | \$ 0.52                       | \$ 0.79                       | \$ 1.91                       |
| Weighted average shares outstanding:         |                               |                               |                               |                               |
| Basic  | 95,664                        | 96,306                        | 96,100                        | 96,306                        |
| Diluted                                      | 96,615                        | 96,319                        | 96,682                        | 96,306                        |

See accompanying notes to Condensed Consolidated Financial Statements.

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

|   | <b>September 29,<br/>2007</b> | <b>December 30,<br/>2006</b> |
|---|-------------------------------|------------------------------|
| <b>Assets</b>   |                               |                              |
| Cash and cash equivalents   | \$ 176,377                    | \$ 155,973                   |
| Trade accounts receivable, less allowances of \$28,685 at<br>September 29, 2007 and \$27,709 at December 30, 2006 | 577,759                       | 488,629                      |
| Inventories   | 1,195,765                     | 1,216,501                    |
| Deferred tax assets and other current assets  | 197,116                       | 210,077                      |
| <b>Total current assets</b>   | <b>2,147,017</b>              | <b>2,071,180</b>             |
| Property, net   | 521,282                       | 556,866                      |
| Trademarks and other identifiable intangibles, net  | 143,307                       | 137,181                      |
| Goodwill  | 308,816                       | 281,525                      |
| Deferred tax assets and other noncurrent assets   | 392,569                       | 388,868                      |
| <b>Total assets</b>   | <b>\$ 3,512,991</b>           | <b>\$ 3,435,620</b>          |
| <b>Liabilities and Stockholders Equity</b>  |                               |                              |
| Accounts payable  | \$ 291,000                    | \$ 222,541                   |
| Accrued liabilities   | 433,236                       | 365,001                      |
| Notes payable   | 45,143                        | 14,264                       |
| Current portion of long-term debt   |                               | 9,375                        |
| <b>Total current liabilities</b>  | <b>769,379</b>                | <b>611,181</b>               |
| Long-term debt  | 2,365,250                     | 2,484,000                    |
| Other noncurrent liabilities  | 158,610                       | 271,168                      |
| <b>Total liabilities</b>  | <b>3,293,239</b>              | <b>3,366,349</b>             |
| Stockholders equity:  |                               |                              |
| Preferred stock (50,000,000 authorized shares; \$.01 par value) Issued<br>and outstanding                         | None                          |                              |
| Common stock (500,000,000 authorized shares; \$.01 par value)<br>Issued and outstanding September 29, 2007        | 95,060,641;                   |                              |
| December 30, 2006   | 96,312,458                    | 954                          |
| Additional paid-in capital  | 198,109                       | 94,852                       |
| Retained earnings   | 66,864                        | 33,024                       |
| Accumulated other comprehensive loss  | (46,175)                      | (59,568)                     |

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|  |              |              |
|--|--------------|--------------|
| Total stockholders' equity                 | 219,752      | 69,271       |
| Total liabilities and stockholders' equity | \$ 3,512,991 | \$ 3,435,620 |

See accompanying notes to Condensed Consolidated Financial Statements.

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

|   | <b>Nine Months Ended</b>      |                           |
|---|-------------------------------|---------------------------|
|   | <b>September 29,<br/>2007</b> | <b>September 30, 2006</b> |
| Operating activities:   |                               |                           |
| Net income  | \$ 76,334                     | \$ 184,222                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |                           |
| Depreciation  | 95,405                        | 82,669                    |
| Amortization of intangibles   | 4,516                         | 6,653                     |
| Restructuring   | (3,446)                       | (3,881)                   |
| Losses on early extinguishment of debt  | 1,440                         |                           |
| Amortization of debt issuance costs   | 4,937                         | 980                       |
| Stock compensation expense  | 27,141                        |                           |
| Deferred taxes and other  | (12,351)                      | (29,884)                  |
| Changes in assets and liabilities:  |                               |                           |
| Accounts receivable   | (109,494)                     | 7,793                     |
| Inventories   | 38,121                        | (55,747)                  |
| Other assets  | 23,539                        | (16,179)                  |
| Due to and from related entities  |                               | 5,268                     |
| Accounts payable  | 67,954                        | 33,006                    |
| Accrued liabilities   | 21,747                        | (14,270)                  |
| Net cash provided by operating activities   | 235,843                       | 200,630                   |
| Investing activities:   |                               |                           |
| Purchases of property and equipment   | (45,387)                      | (80,039)                  |
| Acquisition of business   | (17,380)                      |                           |
| Proceeds from sales of assets   | 13,022                        | 3,601                     |
| Other   | (575)                         | 14                        |
| Net cash used in investing activities   | (50,320)                      | (76,424)                  |
| Financing activities:   |                               |                           |
| Principal payments on capital lease obligations                                   | (914)                         | (3,937)                   |
| Borrowings on notes payable to banks  | 29,969                        | 5,412                     |
| Repayments on notes payable to banks  | (26,845)                      | (68,413)                  |
| Cost of debt issuance   | (2,533)                       | (45,906)                  |
| Issuance of debt under credit facilities  |                               | 2,600,000                 |
| Repayment of debt under credit facilities   | (128,125)                     |                           |
| Increase (decrease) in bank overdraft.  | (834)                         | 4,974                     |
| Proceeds from stock options exercised   | 5,464                         |                           |



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|   |            |             |
|---|------------|-------------|
| Stock repurchases                                   | (44,473)   |             |
| Other   | 552        |             |
| Payments to Sara Lee Corporation                    |            | (2,400,000) |
| Borrowings on notes payable to related entities     |            | 8,724       |
| Net transactions with parent companies              |            | (93,975)    |
| Net transactions with related entities              |            | (435,021)   |
| Net cash used in financing activities               | (167,739)  | (428,142)   |
| Effect of changes in foreign exchange rates on cash | 2,620      | 2,384       |
| Increase (decrease) in cash and cash equivalents    | 20,404     | (301,552)   |
| Cash and cash equivalents at beginning of year      | 155,973    | 510,632     |
| Cash and cash equivalents at end of period          | \$ 176,377 | \$ 209,080  |

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 combined and consolidated financial statements and notes thereto included in the Company's most recent Report on Form 10-KT. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

Hanesbrands Inc. was incorporated in connection with the spin off by Sara Lee Corporation (Sara Lee) of its apparel business in the Americas and Asia (the Branded Apparel Americas and Asia Business). The condensed consolidated financial statements reflect the consolidated operations of Hanesbrands and its subsidiaries as a separate, stand-alone entity subsequent to the spin off from Sara Lee on September 5, 2006, in addition to the historical operations of the Branded Apparel Americas and Asia Business which were operated as part of Sara Lee prior to the spin off.

Management believes the assumptions underlying the condensed consolidated financial statements for these periods are reasonable. However, the condensed consolidated financial statements included herein for periods prior to September 5, 2006 do not necessarily reflect what the Branded Apparel Americas and Asia Business results of operations, financial position and cash flows would have been had the Branded Apparel Americas and Asia Business been a stand-alone company during those periods.

During the third quarter of fiscal 2007, the Company acquired the 1,300-employee textile manufacturing operations in San Juan Opico, El Salvador of Industrias Duraflex, S.A. de C.V., which had been a supplier to the Company since the early 1990s, resulting in approximately \$27,000 of goodwill.

During the third quarter of fiscal 2007, the Company changed the timing of its annual goodwill impairment testing to the first day of the third fiscal quarter. Prior to fiscal 2007, the Company's policy was to perform the test at the end of the second fiscal quarter which coincided with Sara Lee's policy before the spin off. The change in the annual goodwill impairment testing date was made following the change in the Company's fiscal year-end from the Saturday closest to June 30 to the Saturday closest to December 31 and results in the testing continuing to be performed in the middle of the Company's fiscal year. In addition, this accounting change better aligns the annual goodwill impairment test with the timing of the Company's annual long range planning cycle. The change in accounting principle does not delay, accelerate or avoid an impairment charge. Accordingly, the Company believes that the accounting change described

above is preferable under the circumstances.

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

**(2) Earnings Per Share**

Basic earnings per share ( EPS ) was computed by dividing net income by the number of weighted average shares of common stock outstanding during the third quarters and nine months ended September 29, 2007 and September 30, 2006. Diluted EPS was calculated to give effect to all potentially dilutive shares of common stock. The reconciliation of basic to diluted weighted average shares for the third quarter and nine months ended September 29, 2007 and September 30, 2006 is as follows:

|  | <b>Quarter Ended</b>          |                               | <b>Nine Months Ended</b>      |                               |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |
| Basic weighted average shares              | 95,664                        | 96,306                        | 96,100                        | 96,306                        |
| Effect of potentially dilutive securities: |                               |                               |                               |                               |
| Stock options                              | 346                           | 3                             | 221                           |                               |
| Restricted stock units                     | 603                           | 10                            | 361                           |                               |
| Employee stock purchase plan               | 2                             |                               |                               |                               |
| Diluted weighted average shares            | 96,615                        | 96,319                        | 96,682                        | 96,306                        |

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

**(3) Stock-Based Compensation**

During the first quarter ended March 31, 2007, the Company granted options to purchase 1,082 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. Options can be exercised over a term of between five and seven years and vest ratably over one to three years with the exception of one category of award which vested immediately upon grant. The fair value of each option granted during the first quarter ended March 31, 2007 was estimated as of the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions: weighted average expected volatility of 26%; weighted average expected term of 4.49 years; expected dividend yield of 0%; and risk-free interest rate ranging from 4.85% to 4.92%, with a weighted average of 4.85%. 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 relatively short period of time since the spin off on September 5, 2006 during which Hanesbrands stock was traded. 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 31, 2007. The weighted average fair value of individual options granted during the first quarter ended March 31, 2007 was \$7.73.

During the first quarter ended March 31, 2007, the Company granted 574 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 April 2007, the Company implemented 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

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

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 the third quarter and nine months ended September 29, 2007, 33 and 46 shares were purchased under the ESPP by eligible employees, respectively. The Company had 2,396 shares of common available for issuance under the ESPP as of September 29, 2007.

**(4) Restructuring**

The reported results for the third quarters and nine months ended September 29, 2007 and September 30, 2006 reflect amounts recognized for restructuring actions. Reported amounts also include the impact of certain actions that were completed for amounts more favorable than previously estimated of \$224 and \$3,446, respectively, in the third quarter and nine months ended September 29, 2007 and \$0 and \$3,881, respectively, in the third quarter and nine months ended September 30, 2006. The impact of restructuring on income before income tax expense is summarized as follows:

|  | <b>Quarter Ended</b>          |                               | <b>Nine Months Ended</b>      |                               |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |
| Restructuring programs:                                  |                               |                               |                               |                               |
| Fiscal year 2007 restructuring actions                   | \$ 15,786                     | \$                            | \$ 64,838                     | \$                            |
| Six months ended December 30, 2006 restructuring actions | (922)                         | 13,706                        | 11,677                        | 13,706                        |
| Fiscal year 2006 restructuring actions                   | 25                            |                               | (408)                         | 4,119                         |
| Fiscal year 2005 restructuring actions                   | (76)                          |                               | (195)                         | (2,514)                       |
| Fiscal year 2004 and prior restructuring actions         |                               |                               |                               | (1,367)                       |
| Decrease in income before income tax expense             | \$ 14,813                     | \$ 13,706                     | \$ 75,912                     | \$ 13,944                     |

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

|  | <b>Quarter Ended</b>          |                               | <b>Nine Months Ended</b>      |                               |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |
| Cost of sales                                | \$ 11,802                     | \$ 4,393                      | \$ 29,482                     | \$ 4,393                      |
| Selling, general and administrative expenses | 949                           |                               | 1,897                         |                               |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Restructuring                                | 2,062     | 9,313     | 44,533    | 9,551     |
| Decrease in income before income tax expense | \$ 14,813 | \$ 13,706 | \$ 75,912 | \$ 13,944 |

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

**2007 Restructuring Actions**

During the nine months ended September 29, 2007, the Company, in connection with its consolidation and globalization strategy, approved actions that will result in the closure of 14 manufacturing facilities and two distribution centers in the United States, Canada, the Dominican Republic, Mexico, Brazil and Puerto Rico. All actions are expected to be completed within a 12-month period. The net impact of these actions was to reduce income before income tax expense by \$15,786 and \$64,838 in the third quarter and nine months ended September 29, 2007, respectively.

The following table summarizes the charges taken during the nine months ended September 29, 2007 related to fiscal year 2007 restructuring actions and the related status as of September 29, 2007. Any accrued amounts remaining as of September 29, 2007 represent those cash expenditures necessary to satisfy remaining obligations, which will be primarily paid in the next 12 months.

|   | <b>Cumulative<br/>Restructuring<br/>Costs<br/>Recognized</b> | <b>Non-Cash<br/>Charges</b> | <b>Cash<br/>Payments</b> | <b>Accrued<br/>Restructuring<br/>as of<br/>September 29,<br/>2007</b> |
|---|--|-----------------------------|--------------------------|---|
| Employee termination and other benefits | \$ 35,672  | \$                          | \$ (8,738)               | \$ 26,934   |
| Accelerated depreciation                | 28,844   | (28,844)                    |                          |   |
| Other                                   | 322  | (322)                       |                          |   |
|   | \$ 64,838  | \$ (29,166)                 | \$ (8,738)               | \$ 26,934   |

The Company recognized \$1,736 and \$35,672 in the third quarter and nine months ended September 29, 2007, respectively, which represents costs associated with the planned termination of 7,903 employees for 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 Statements of Income. As of September 29, 2007, 2,868 employees had been terminated and the severance obligation remaining in accrued liabilities on the Condensed Consolidated Balance Sheet was \$26,934.

The Company recognized \$13,728 and \$28,844 in the third quarter and nine months ended September 29, 2007, respectively, which represents accelerated depreciation of buildings and equipment for facilities that have been or will be closed in connection with its consolidation and globalization strategy. This charge is reflected in the Cost of sales and Selling, general and administrative expenses lines of the Condensed Consolidated Statements of Income.



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

***Prior Period Restructuring Actions***

The following table summarizes activity in accrued restructuring for each of the prior period restructuring actions from December 30, 2006 to September 29, 2007. Any accrued amounts remaining as of September 29, 2007 represent those cash expenditures necessary to satisfy remaining obligations. Remaining obligations for employee termination and other benefits will be paid primarily in the next 12 months, while the obligations for lease termination costs will be paid primarily over the next several years.

|  | <b>December 30,<br/>2006</b> | <b>Restructuring<br/>Charges</b> | <b>Cash<br/>Payments</b> | <b>September 29,<br/>2007</b> |
|--|------------------------------|----------------------------------|--------------------------|-------------------------------|
| Six months ended December 30, 2006 restructuring actions | \$ 5,334                     | \$ 9,135                         | \$ (10,793)              | \$ 3,676                      |
| Fiscal year 2006 restructuring actions                   | 1,858                        | (215)                            | (1,331)                  | 312                           |
| Fiscal year 2005 restructuring actions                   | 8,027                        | (195)                            | (5,439)                  | 2,393                         |
| Fiscal year 2004 and prior restructuring actions         | 1,810                        |                                  | (207)                    | 1,603                         |
| Accrued restructuring                                    | \$ 17,029                    | \$ 8,725                         | \$ (17,770)              | \$ 7,984                      |

The Company recognized restructuring charges of \$10,368 for estimated lease termination costs associated with plant closures announced in the six months ended December 30, 2006, for facilities which were exited in the nine months ended September 29, 2007.

**(5) Income Taxes**

The Company adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ), during the nine months ended September 29, 2007. As a result of the implementation of FIN 48, the Company recognized no adjustment in the liability for unrecognized income tax benefits. At the adoption date on December 31, 2006, the Company had \$3,267 of unrecognized tax benefits, all of which would affect the effective tax rate if recognized. As of September 29, 2007, the Company has \$7,850 of unrecognized tax benefits. Although it is not reasonably possible to estimate the amount by which these 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 does not expect unrecognized tax benefits to significantly change in the next twelve months.

Under a tax sharing agreement entered into in connection with the spin off from Sara Lee on September 5, 2006, Sara Lee generally is liable for all U.S. federal, state, local and foreign income taxes attributable to the Company with respect to taxable periods ending on or before September 5, 2006. Sara Lee is also liable for income taxes attributable to the Company 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.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. As of September 29, 2007, the Company had no accrual for interest and penalties.

For the third quarter and nine months ended September 29, 2007, income taxes have been computed consistent with Accounting Principles Board Opinion No. 28, Interim Financial Reporting ( APB 28 ) and FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods ( FIN 18 ). For most of the third quarter and nine months ended September 30, 2006, the Company's operations were included in the

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
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consolidated income tax returns of Sara Lee. Income taxes were calculated and provided for by the Company on a separate return basis for each quarterly period prior to the spin off from Sara Lee on September 5, 2006.

The difference in the effective tax rate of 30.0% for the third quarter and nine months ended September 29, 2007 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 and federal tax credits. The difference in the effective tax rates of 34.0% and 24.4% for the third quarter and nine months ended September 30, 2006, 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.

**(6) Comprehensive Income**

Statement of Financial Accounting Standards ( SFAS ) No. 130, Reporting Comprehensive Income, requires that all components of comprehensive income, including net income, be reported in the financial statements in the period in which they are recognized. Comprehensive income is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income and other comprehensive income, including foreign currency translation adjustments, amounts amortized into net periodic benefit cost as required by SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, and unrealized gains and losses on qualifying cash flow hedges, are combined, net of their related tax effect, to arrive at comprehensive income. The Company s comprehensive income is as follows:

|   | <b>Quarter Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|---|----------------------|----------------------|--------------------------|----------------------|
|   | <b>September 29,</b> | <b>September 30,</b> | <b>September 29,</b>     | <b>September 30,</b> |
|   | <b>2007</b>          | <b>2006</b>          | <b>2007</b>              | <b>2006</b>          |
| Net income  | \$ 38,896            | \$ 50,345            | \$ 76,334                | \$ 184,222           |
| Translation adjustments   | 9,389                | (4,338)              | 17,023                   | 3,874                |
| Net unrealized loss on qualifying cash flow hedges, net of tax                | (5,589)              | (497)                | (1,295)                  | (3,613)              |
| Postretirement income released through other comprehensive income, net of tax | (1,323)              |                      | (1,323)                  |                      |
| Amounts amortized into net periodic income:                                   |                      |                      |                          |                      |
| Prior service benefit   | (1,223)              |                      | (3,669)                  |                      |
| Actuarial loss  | (1,184)              |                      | (37)                     |                      |
| Comprehensive income  | \$ 38,966            | \$ 45,510            | \$ 87,033                | \$ 184,483           |

**(7) Inventories**

Inventories consisted of the following:

|                 | <b>September 29,<br/>2007</b> | <b>December 30,<br/>2006</b> |
|-----------------|-------------------------------|------------------------------|
| Raw materials   | \$ 150,755                    | \$ 111,503                   |
| Work in process | 161,553                       | 197,645                      |
| Finished goods  | 883,457                       | 907,353                      |
|                 | \$ 1,195,765                  | \$ 1,216,501                 |

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**(8) Defined Benefit Pension Plans**

Prior to the spin off from Sara Lee on September 5, 2006, employees who met certain eligibility requirements participated in defined benefit pension plans sponsored by Sara Lee. The annual cost of the Sara Lee defined benefit plans was allocated from Sara Lee to all of the participating businesses based upon a specific actuarial computation which was followed consistently. Effective as of January 1, 2006, the Company created the Hanesbrands Inc. Pension and Retirement Plan (the Hanesbrands Pension Plan), a new defined benefit plan under which all benefits were frozen, to receive assets and liabilities accrued under the Sara Lee Pension Plan that are attributable to current and former Company employees. In connection with the spin off on September 5, 2006, the Company assumed all Sara Lee's obligations under pension plans to the extent related to the Company's current and former employees. In addition to the Hanesbrands Pension Plan, the Company sponsors two noncontributory defined benefit plans, the Playtex Apparel, Inc. Pension Plan (the Playtex Plan) and the National Textiles LLC Pension Plan (the National Textiles Plan), for certain qualifying individuals.

The obligations and costs related to these plans are included in the Company's Condensed Consolidated Financial Statements as of September 29, 2007.

The pension expense (income) incurred by the Company for these defined benefit plans is as follows:

|   | <b>Quarter Ended</b>          |                               | <b>Nine Months Ended</b>      |                               |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|   | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |
| Participation in Sara Lee sponsored defined benefit plans | \$                            | \$ 725                        | \$                            | \$ 6,184                      |
| Hanesbrands sponsored defined benefit plans               | (6,977)                       | 469                           | (4,715)                       | 469                           |
| Playtex Apparel, Inc. Pension Plan                        | (34)                          | (25)                          | (101)                         | (142)                         |
| National Textiles LLC Pension Plan                        | (85)                          | (229)                         | (254)                         | (759)                         |
| Total pension plan expense (income)                       | \$ (7,096)                    | \$ 940                        | \$ (5,070)                    | \$ 5,752                      |

For the third quarter and nine months ended September 29, 2007, the components of the Company's noncontributory defined benefit plans net periodic income were as follows:

| <b>Quarter Ended<br/>September 29,<br/>2007</b> | <b>Nine Months<br/>Ended<br/>September 29,<br/>2007</b> |
|---|---|
|---|---|

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|                           |    |          |    |          |
|---------------------------|----|----------|----|----------|
| Service cost              | \$ | 372      | \$ | 1,033    |
| Interest cost             |    | 12,451   |    | 37,280   |
| Expected return on assets |    | (17,733) |    | (42,578) |
| Amortization of:          |    |          |    |          |
| Prior service cost        |    | 10       |    | 32       |
| Net actuarial loss        |    | (2,196)  |    | (837)    |
| Net periodic income       | \$ | (7,096)  | \$ | (5,070)  |

During the third quarter ended September 29, 2007, the Company substantially completed the separation of its pension plan assets and liabilities from those of Sara Lee in accordance with governmental regulations, which will result in a higher total amount of pension plan assets being transferred to the Company than

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**Notes to Condensed Consolidated Financial Statements (Continued)**  
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originally was estimated prior to the spin off. The separation resulted in a reduction to pension liabilities of approximately \$74,000 with a corresponding credit to additional paid-in capital as of the end of the third quarter, and resulted in an adjustment of approximately \$6,000 to pension expense for the third quarter and nine months ended September 29, 2007. A final transfer of assets will occur by the end of fiscal 2007.

During the nine months ended September 29, 2007, the Company made discretionary contributions totaling \$47,981. These contributions, when combined with the payment made in December 2006, satisfy the 2007 minimum funding requirement for the pension plans.

**(9) Postretirement Healthcare and Life Insurance Plans**

Prior to the spin off from Sara Lee on September 5, 2006, employees who met certain eligibility requirements participated in post-retirement healthcare and life insurance sponsored by Sara Lee. The annual cost of the Sara Lee postretirement healthcare and life insurance plans was allocated from Sara Lee to all of the participating businesses based upon a specific actuarial computation which was followed consistently. In connection with the spin off on September 5, 2006, the Company assumed all Sara Lee's obligations under postretirement plans to the extent related to the Company's current and former employees. The obligations and costs related to these plans are included in the Company's Condensed Consolidated Financial Statements as of September 29, 2007.

In December 2006, the Company changed the postretirement plan benefits to (a) pass along a higher share of retiree medical costs to all retirees effective February 1, 2007, (b) eliminate company contributions toward premiums for retiree medical coverage effective December 1, 2007, (c) eliminate retiree medical coverage options for all current and future retirees age 65 and older and (d) eliminate future postretirement life benefits. Gains associated with these amendments are currently being amortized and the Company expects to record a final gain on curtailment of plan benefits of approximately \$32,000 in December 2007 upon termination of the plans.

The postretirement plan expense (income) incurred by the Company for these postretirement plans is as follows:

|  | <b>Quarter Ended</b>          |                               | <b>Nine Months Ended</b>      |                               |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |
| Participation in Sara Lee sponsored postretirement healthcare and life insurance plans | \$                            | \$ 214                        | \$                            | \$ 3,162                      |
| Hanesbrands postretirement healthcare and life insurance plans                         | (1,456)                       | 37                            | (4,368)                       | 37                            |
| Total postretirement plan expense (income)   | \$ (1,456)                    | \$ 251                        | \$ (4,368)                    | \$ 3,199                      |





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**Notes to Condensed Consolidated Financial Statements (Continued)**  
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For the third quarter and nine months ended September 29, 2007, the components of the Company's postretirement plans net periodic benefit income were as follows:

|                           | <b>Quarter Ended<br/>September 29,<br/>2007</b> | <b>Nine Months<br/>Ended<br/>September 29,<br/>2007</b> |
|---------------------------|---|---|
| Service cost              | \$ 78   | \$ 234  |
| Interest cost             | 224   | 672   |
| Expected return on assets | (2)   | (6)   |
| Amortization of:          |   |   |
| Transition obligation     | (3)   | (9)   |
| Prior service cost        | (2,012)   | (6,036)   |
| Net actuarial loss        | 259   | 777   |
| Net periodic income       | \$ (1,456)                                      | \$ (4,368)  |

**(10) Long-Term Debt**

In connection with the spin off on September 5, 2006, the Company entered into a \$2,150,000 senior secured credit facility (the Senior Secured Credit Facility), a \$450,000 senior secured second lien credit facility and a \$500,000 bridge loan facility (the Bridge Loan Facility). The Bridge Loan Facility was paid off in full through the issuance of \$500,000 of floating rate senior notes in December 2006.

On February 22, 2007, the Company entered into a First Amendment (the First Amendment) to the Senior Secured Credit Facility. Pursuant to the First Amendment, the applicable margin with respect to the \$1,400,000 Term B loan facility (Term B Loan Facility) that comprises a part of the Senior Secured Credit Facility was reduced from 2.25% to 1.75% with respect to loans maintained as LIBO loans, and from 1.25% to 0.75% with respect to loans maintained as Base Rate loans. At the Company's option, borrowings under the Senior Secured Credit Facility may be maintained from time to time as (a) Base Rate loans, which bear interest at the higher of (i) 1/2 of 1% in excess of the federal funds rate and (ii) the rate published in the Wall Street Journal as the prime rate (or equivalent), in each case in effect from time to time, plus the applicable margin in effect from time to time, or (b) LIBOR based loans, which shall bear interest at the LIBO Rate (as defined in the Senior Secured Credit Facility and adjusted for maximum reserves), as determined by the Administrative Agent for the respective interest period plus the applicable margin in effect from time to time.

The First Amendment also provides that in the event that, prior to February 22, 2008, the Company: (i) incurs a new tranche of replacement loans constituting obligations under the Senior Secured Credit Facility having an effective interest rate margin less than the applicable margin for loans pursuant to the Term B Loan Facility (Term B Loans),

the proceeds of which are used to repay or return, in whole or in part, principal of the outstanding Term B Loans, (ii) consummates any other amendment to the Senior Secured Credit Facility that reduces the applicable margin for the Term B Loans, or (iii) incurs additional Term B Loans having an effective interest rate margin less than the applicable margin for Term B Loans, the proceeds of which are used in whole or in part to prepay or repay outstanding Term B Loans, then in any such case, the Company will pay to the Administrative Agent, for the ratable account of each Lender with outstanding Term B Loans, a fee in an amount equal to 1.0% of the aggregate principal amount of all Term B Loans being replaced on such date immediately prior to the effectiveness of such transaction. The Company incurred \$1,600 in debt issuance costs in connection with entering into the First Amendment which will be amortized over the life of the Term B Loan Facility.

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

**(11) Business Segment Information**

Our operations are managed and reported in five operating segments, each of which is a reportable segment: 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 assets and operations of these businesses.

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

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

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

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

International relates to the Europe, Asia, Canada and Latin America 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, Asia and Latin America in order to maintain asset utilization at certain manufacturing facilities.

The accounting policies of the segments are consistent with those described in Note 2 to the Company's combined and consolidated financial statements included in its Report on Form 10-KT for the six months ended December 30, 2006.

|                         | <b>Quarter Ended</b>          |                               | <b>Nine Months Ended</b>      |                               |
|-------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                         | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |
| <b>Net sales(1)(2):</b> |                               |                               |                               |                               |
| Innerwear               | \$ 635,167                    | \$ 651,183                    | \$ 1,917,118                  | \$ 1,930,282                  |
| Outerwear               | 349,352                       | 318,320                       | 896,583                       | 856,129                       |
| Hosiery                 | 64,120                        | 56,707                        | 189,215                       | 190,894                       |
| International           | 103,341                       | 93,126                        | 303,119                       | 295,564                       |

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|                         |              |              |              |              |
|-------------------------|--------------|--------------|--------------|--------------|
| Other                   | 13,587       | 10,796       | 46,629       | 36,085       |
| Total segment net sales | 1,165,567    | 1,130,132    | 3,352,664    | 3,308,954    |
| Intersegment            | (11,961)     | (11,164)     | (37,257)     | (36,993)     |
| Total net sales         | \$ 1,153,606 | \$ 1,118,968 | \$ 3,315,407 | \$ 3,271,961 |

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|   | <b>Quarter Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|---|----------------------|----------------------|--------------------------|----------------------|
|   | <b>September 29,</b> | <b>September 30,</b> | <b>September 29,</b>     | <b>September 30,</b> |
|   | <b>2007</b>          | <b>2006</b>          | <b>2007</b>              | <b>2006</b>          |
| <b>Segment operating profit:</b>  |                      |                      |                          |                      |
| Innerwear   | \$ 63,173            | \$ 93,204            | \$ 243,821               | \$ 260,724           |
| Outerwear   | 36,051               | 25,287               | 54,453                   | 61,281               |
| Hosiery   | 18,670               | 9,590                | 52,849                   | 22,666               |
| International   | 9,616                | 5,875                | 34,321                   | 28,438               |
| Other   | (306)                | 138                  | (17)                     | (505)                |
| <b>Total segment operating profit</b>   | <b>127,204</b>       | <b>134,094</b>       | <b>385,427</b>           | <b>372,604</b>       |
| Items not included in segment operating profit:                                   |                      |                      |                          |                      |
| General corporate expenses  | (5,225)              | (24,829)             | (42,294)                 | (81,967)             |
| Amortization of trademarks and other identifiable intangibles                     | (1,442)              | (1,667)              | (4,516)                  | (6,653)              |
| Restructuring   | (2,062)              | (9,313)              | (44,533)                 | (9,551)              |
| Inventory write-off included in cost of sales                                     | (186)                |                      | (186)                    |                      |
| Accelerated depreciation included in cost of sales                                | (11,616)             | (4,393)              | (29,296)                 | (4,393)              |
| Accelerated depreciation included in selling, general and administrative expenses | (949)                |                      | (1,897)                  |                      |
| <b>Total operating profit</b>   | <b>105,724</b>       | <b>93,892</b>        | <b>262,705</b>           | <b>270,040</b>       |
| Other expenses  | (889)                |                      | (1,440)                  |                      |
| Interest expense, net   | (49,270)             | (17,569)             | (152,217)                | (26,437)             |
| <b>Income before income tax expense</b>   | <b>\$ 55,565</b>     | <b>\$ 76,323</b>     | <b>\$ 109,048</b>        | <b>\$ 243,603</b>    |
|   |                      |                      | <b>September 29,</b>     | <b>December 30,</b>  |
|   |                      |                      | <b>2007</b>              | <b>2006</b>          |
| <b>Assets:</b>  |                      |                      |                          |                      |
| Innerwear   |                      |                      | \$ 1,304,974             | \$ 1,354,183         |
| Outerwear   |                      |                      | 835,456                  | 761,653              |
| Hosiery   |                      |                      | 102,430                  | 110,400              |
| International   |                      |                      | 229,269                  | 222,561              |
| Other   |                      |                      | 36,626                   | 21,798               |

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|              |              |              |
|--------------|--------------|--------------|
| Corporate(3) | 2,508,755    | 2,470,595    |
|              | 1,004,236    | 965,025      |
| Total assets | \$ 3,512,991 | \$ 3,435,620 |

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|   | <b>Quarter Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|---|----------------------|----------------------|--------------------------|----------------------|
|   | <b>September 29,</b> | <b>September 30,</b> | <b>September 29,</b>     | <b>September 30,</b> |
|   | <b>2007</b>          | <b>2006</b>          | <b>2007</b>              | <b>2006</b>          |
| <b>Depreciation expense for fixed assets:</b> |                      |                      |                          |                      |
| Innerwear                                     | \$ 7,636             | \$ 11,215            | \$ 32,021                | \$ 37,567            |
| Outerwear                                     | 3,877                | 5,743                | 13,365                   | 16,295               |
| Hosiery                                       | 2,198                | 2,377                | 6,820                    | 8,463                |
| International                                 | 1,057                | 762                  | 2,934                    | 1,321                |
| Other   | 1,554                | 1,067                | 2,802                    | 2,790                |
|   | 16,322               | 21,164               | 57,942                   | 66,436               |
| Corporate                                     | 15,894               | 6,742                | 37,463                   | 16,233               |
| Total depreciation expense for fixed assets   | \$ 32,216            | \$ 27,906            | \$ 95,405                | \$ 82,669            |

|  | <b>Quarter Ended</b> |                      | <b>Nine Months Ended</b> |                      |
|--|----------------------|----------------------|--------------------------|----------------------|
|  | <b>September 29,</b> | <b>September 30,</b> | <b>September 29,</b>     | <b>September 30,</b> |
|  | <b>2007</b>          | <b>2006</b>          | <b>2007</b>              | <b>2006</b>          |
| <b>Additions to long-lived assets:</b> |                      |                      |                          |                      |
| Innerwear                              | \$ 5,247             | \$ 8,939             | \$ 10,784                | \$ 13,106            |
| Outerwear                              | 2,607                | 4,752                | 4,013                    | 21,956               |
| Hosiery                                | 52                   | 189                  | 856                      | 260                  |
| International                          | 450                  | 135                  | 1,281                    | 1,906                |
| Other                                  | 632                  | 188                  | 649                      | 349                  |
|  | 8,988                | 14,203               | 17,583                   | 37,577               |
| Corporate                              | 18,111               | 5,978                | 27,804                   | 42,462               |
| Total additions to long-lived assets   | \$ 27,099            | \$ 20,181            | \$ 45,387                | \$ 80,039            |

(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:

|               | <b>Quarter Ended</b>          |                               | <b>Nine Months Ended</b>      |                               |
|---------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|               | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |
| Innerwear     | \$ 1,670                      | \$ 1,030                      | \$ 5,057                      | \$ 4,763                      |
| Outerwear     | 5,475                         | 4,845                         | 17,254                        | 14,272                        |
| Hosiery       | 4,124                         | 4,643                         | 12,692                        | 15,321                        |
| International | 692                           | 646                           | 2,254                         | 2,637                         |
| Other         |                               |                               |                               |                               |
| <b>Total</b>  | <b>\$ 11,961</b>              | <b>\$ 11,164</b>              | <b>\$ 37,257</b>              | <b>\$ 36,993</b>              |

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



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**Notes to Condensed Consolidated Financial Statements (Continued)**  
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**(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 (Hanesbrands Inc. without its subsidiaries or divisions), the issuer of the guaranteed obligations;
- (ii) Divisional entities, on a combined basis, representing operating divisions (not legal entities) 100% owned by Parent Company;
- (iii) Guarantor subsidiaries, on a combined basis, as specified in the indenture governing the Floating Rate Senior Notes;
- (iv) Non-guarantor subsidiaries, on a combined basis;
- (v) 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
- (vi) Parent Company, on a consolidated basis.

As described in Note 1 to the Company's Combined and Consolidated Financial Statements included in its Report on Form 10-KT for the six months ended December 30, 2006, a separate legal entity did not exist for Parent Company prior to the spin off from Sara Lee because a direct ownership relationship did not exist among the various units comprising the Branded Apparel Americas and Asia Business. In connection with the spin off from Sara Lee, each guarantor subsidiary became a wholly owned direct or indirect subsidiary of Parent Company as of September 5, 2006. Therefore, a parent company entity is not presented for fiscal periods prior to the spin-off.

The Floating Rate Senior Notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary. Each entity in the consolidating financial information follows the same accounting policies as described in the Company's Combined and Consolidated Financial Statements included in its Report on Form 10-KT for the six months ended December 30, 2006, 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 September 29, 2007**

|   | <b>Parent<br/>Company<br/>(*)</b> | <b>Divisional<br/>Entities</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net sales   | \$                                | \$ 1,143,537                   | \$ 229,998                        | \$ 621,840                            | \$ (841,769)  | \$ 1,153,606        |
| Cost of sales   |                                   | 878,409                        | 164,846                           | 545,064                               | (795,732)   | 792,587             |
| Gross profit  |                                   | 265,128                        | 65,152                            | 76,776                                | (46,037)  | 361,019             |
| Selling, general and<br>administrative expenses         |                                   | 199,450                        | (54,260)                          | (16,162)                              | 124,205   | 253,233             |
| Restructuring   |                                   | 905                            | 67                                | 1,090                                 |   | 2,062               |
| Operating profit (loss)                                 |                                   | 64,773                         | 119,345                           | 91,848                                | (170,242)   | 105,724             |
| Equity in earnings<br>(loss) of subsidiaries            | 38,896                            |                                | 37,420                            |                                       | (76,316)  |                     |
| Other expenses  |                                   | 889                            |                                   |                                       |   | 889                 |
| Interest expense, net                                   |                                   | 38,797                         | 10,633                            | (168)                                 | 8   | 49,270              |
| Income (loss) before<br>income tax expense<br>(benefit) | 38,896                            | 25,087                         | 146,132                           | 92,016                                | (246,566)   | 55,565              |
| Income tax expense<br>(benefit)                         |                                   |                                | 24,091                            | (7,422)                               |   | 16,669              |
| Net income (loss)                                       | \$ 38,896                         | \$ 25,087                      | \$ 122,041                        | \$ 99,438                             | \$ (246,566)  | \$ 38,896           |

\* Parent Company refers to Hanesbrands Inc. without its subsidiaries or divisions.

**Condensed Consolidating Statement of Income**  
**Quarter Ended September 30, 2006**

|  | <b>Parent<br/>Company<br/>(*)</b> | <b>Divisional<br/>Entities</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|
|--|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|

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|  |          |              |              |            |              |              |
|--|----------|--------------|--------------|------------|--------------|--------------|
| Net sales                                    | \$       | \$ 1,117,746 | \$ 43,358    | \$ 614,443 | \$ (656,579) | \$ 1,118,968 |
| Cost of sales                                |          | 681,195      | 215,328      | 538,868    | (682,054)    | 753,337      |
| Gross profit                                 |          | 436,551      | (171,970)    | 75,575     | 25,475       | 365,631      |
| Selling, general and administrative expenses |          | 207,741      | 49,462       | 27,412     | (22,189)     | 262,426      |
| Restructuring                                |          | 8,708        |              | 605        |              | 9,313        |
| Operating profit (loss)                      |          | 220,102      | (221,432)    | 47,558     | 47,664       | 93,892       |
| Equity in earnings (loss) of subsidiaries    | 9,230    |              | 40,964       |            | (50,194)     |              |
| Interest expense, net                        |          | 12,967       | 4,760        | (221)      | 63           | 17,569       |
| Income (loss) before income tax expense      | 9,230    | 207,135      | (185,228)    | 47,779     | (2,593)      | 76,323       |
| Income tax expense                           |          |              | 23,120       | 2,858      |              | 25,978       |
| Net income (loss)                            | \$ 9,230 | \$ 207,135   | \$ (208,348) | \$ 44,921  | \$ (2,593)   | \$ 50,345    |

\* Parent Company refers to Hanesbrands Inc. without its subsidiaries or divisions. The \$9,230 of net income represents the Company's consolidated net income for the period from September 5, 2006 through September 30, 2006.

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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**  
**Nine Months Ended September 29, 2007**

|  | <b>Parent<br/>Company<br/>(*)</b> | <b>Divisional<br/>Entities</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net sales  | \$                                | \$ 3,284,987                   | \$ 660,117                        | \$ 1,863,661                          | \$ (2,493,358)  | \$ 3,315,407        |
| Cost of sales                                      |                                   | 2,498,548                      | 485,058                           | 1,644,007                             | (2,393,261)   | 2,234,352           |
| Gross profit                                       |                                   | 786,439                        | 175,059                           | 219,654                               | (100,097)   | 1,081,055           |
| Selling, general and<br>administrative<br>expenses |                                   | 660,861                        | (51,777)                          | 40,212                                | 124,521   | 773,817             |
| Restructuring                                      |                                   | 43,466                         | 72                                | 995                                   |   | 44,533              |
| Operating profit (loss)                            |                                   | 82,112                         | 226,764                           | 178,447                               | (224,618)   | 262,705             |
| Equity in earnings<br>(loss) of subsidiaries       | 76,334                            |                                | 104,184                           |                                       | (180,518)   |                     |
| Other expenses                                     |                                   | 1,440                          |                                   |                                       |   | 1,440               |
| Interest expense, net                              |                                   | 121,041                        | 31,903                            | (731)                                 | 4   | 152,217             |
| Income (loss) before<br>income tax expense         | 76,334                            | (40,369)                       | 299,045                           | 179,178                               | (405,140)   | 109,048             |
| Income tax expense                                 |                                   |                                | 26,498                            | 6,216                                 |   | 32,714              |
| Net income (loss)                                  | \$ 76,334                         | \$ (40,369)                    | \$ 272,547                        | \$ 172,962                            | \$ (405,140)  | \$ 76,334           |

\* Parent Company refers to Hanesbrands Inc. without its subsidiaries or divisions.

**Condensed Consolidating Statement of Income**  
**Nine Months Ended September 30, 2006**

|  | <b>Parent<br/>Company<br/>(*)</b> | <b>Divisional<br/>Entities</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|
|--|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|

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|  |          |              |              |              |                |              |
|--|----------|--------------|--------------|--------------|----------------|--------------|
| Net sales                                    | \$       | \$ 3,353,933 | \$ 484,703   | \$ 1,867,540 | \$ (2,434,215) | \$ 3,271,961 |
| Cost of sales                                |          | 2,419,985    | 658,639      | 1,571,265    | (2,465,912)    | 2,183,977    |
| Gross profit                                 |          | 933,948      | (173,936)    | 296,275      | 31,697         | 1,087,984    |
| Selling, general and administrative expenses |          | 582,707      | 133,400      | 81,606       | 10,680         | 808,393      |
| Restructuring                                |          | 9,521        | (51)         | 81           |                | 9,551        |
| Operating profit (loss)                      |          | 341,720      | (307,285)    | 214,588      | 21,017         | 270,040      |
| Equity in earnings (loss) of subsidiaries    | 9,230    |              | 189,647      |              | (198,877)      |              |
| Interest expense, net                        |          | 13,814       | 9,536        | 3,087        |                | 26,437       |
| Income (loss) before income tax expense      | 9,230    | 327,906      | (127,174)    | 211,501      | (177,860)      | 243,603      |
| Income tax expense                           |          |              | 52,849       | 6,532        |                | 59,381       |
| Net income (loss)                            | \$ 9,230 | \$ 327,906   | \$ (180,023) | \$ 204,969   | \$ (177,860)   | \$ 184,222   |

\* Parent Company refers to Hanesbrands Inc. without its subsidiaries or divisions. The \$9,230 of net income represents the Company's consolidated net income for the period from September 5, 2006 through September 30, 2006.

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

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

|  | <b>Parent<br/>Company<br/>(*)</b> | <b>Divisional<br/>Entities</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| <b>Assets</b>                                      |                                   |                                |                                   |                                       |   |                     |
| Cash and cash equivalents                          | \$                                | \$ 28,358                      | \$ (1,662)                        | \$ 149,681                            | \$  | \$ 176,377          |
| Trade accounts receivable                          |                                   | 493,635                        | 14,129                            | 72,694                                | (2,699)   | 577,759             |
| Inventories  |                                   | 980,114                        | 103,461                           | 279,596                               | (167,406)   | 1,195,765           |
| Deferred tax assets and other current assets       |                                   | 39,765                         | 137,987                           | 21,912                                | (2,548)   | 197,116             |
| Total current assets                               |                                   | 1,541,872                      | 253,915                           | 523,883                               | (172,653)   | 2,147,017           |
| Property, net                                      |                                   | 230,326                        | 57,275                            | 233,681                               |   | 521,282             |
| Trademarks and other identifiable intangibles, net |                                   | 18,288                         | 110,285                           | 14,734                                |   | 143,307             |
| Goodwill   |                                   | 204,003                        | 16,934                            | 87,879                                |   | 308,816             |
| Investments in subsidiaries                        | 219,752                           |                                | 639,785                           |                                       | (859,537)   |                     |
| Deferred tax assets and other noncurrent assets    |                                   | 3,924                          | 421,801                           | 12,030                                | (45,186)  | 392,569             |
| Total assets                                       | \$ 219,752                        | \$ 1,998,413                   | \$ 1,499,995                      | \$ 872,207                            | \$ (1,077,376)  | \$ 3,512,991        |
| <b>Liabilities and Stockholders Equity</b>         |                                   |                                |                                   |                                       |   |                     |
| Accounts payable                                   | \$                                | \$ 124,898                     | \$ 20,056                         | \$ 60,399                             | \$ 85,647   | \$ 291,000          |
| Accrued liabilities                                |                                   | 341,167                        | 29,365                            | 65,374                                | (2,670)   | 433,236             |
| Notes payable to banks                             |                                   |                                |                                   | 45,143                                |   | 45,143              |
| Current portion of long-term debt                  |                                   |                                |                                   |                                       |   |                     |
| Total current liabilities                          |                                   | 466,065                        | 49,421                            | 170,916                               | 82,977  | 769,379             |

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|   |            |              |              |            |                |              |
|---|------------|--------------|--------------|------------|----------------|--------------|
| Long-term debt                            |            | 1,915,250    | 450,000      |            |                | 2,365,250    |
| Other noncurrent liabilities              |            | 124,751      | 13,719       | 15,541     | 4,599          | 158,610      |
| Total liabilities                         |            | 2,506,066    | 513,140      | 186,457    | 87,576         | 3,293,239    |
| Stockholders equity                       | 219,752    | (507,653)    | 986,855      | 685,750    | (1,164,952)    | 219,752      |
| Total liabilities and stockholders equity | \$ 219,752 | \$ 1,998,413 | \$ 1,499,995 | \$ 872,207 | \$ (1,077,376) | \$ 3,512,991 |

\* Parent Company refers to Hanesbrands Inc. without its subsidiaries or divisions.



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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 30, 2006**

|  | <b>Parent<br/>Company<br/>(*)</b> | <b>Divisional<br/>Entities</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| <b>Assets</b>                                      |                                   |                                |                                   |                                       |   |                     |
| Cash and cash equivalents                          | \$                                | \$ 60,960                      | \$ (1,251)                        | \$ 96,264                             | \$  | \$ 155,973          |
| Trade accounts receivable                          |                                   | 408,751                        | 9,369                             | 70,509                                |   | 488,629             |
| Inventories  |                                   | 959,274                        | 115,413                           | 239,548                               | (97,734)  | 1,216,501           |
| Deferred tax assets and other current assets       |                                   | 55,481                         | 141,381                           | 28,131                                | (14,916)  | 210,077             |
| Total current assets                               |                                   | 1,484,466                      | 264,912                           | 434,452                               | (112,650)   | 2,071,180           |
| Property, net                                      |                                   | 298,755                        | 64,357                            | 193,754                               |   | 556,866             |
| Trademarks and other identifiable intangibles, net |                                   | 13,301                         | 114,205                           | 9,675                                 |   | 137,181             |
| Goodwill   |                                   | 213,376                        | 16,935                            | 51,214                                |   | 281,525             |
| Investments in subsidiaries                        | 69,271                            |                                | 587,628                           |                                       | (656,899)   |                     |
| Deferred tax assets and other noncurrent assets    |                                   | 144,281                        | 230,946                           | 248,541                               | (234,900)   | 388,868             |
| Total assets                                       | \$ 69,271                         | \$ 2,154,179                   | \$ 1,278,983                      | \$ 937,636                            | \$ (1,004,449)  | \$ 3,435,620        |
| <b>Liabilities and Stockholders Equity</b>         |                                   |                                |                                   |                                       |   |                     |
| Accounts payable                                   | \$                                | \$ 162,281                     | \$ 17,867                         | \$ 47,097                             | \$ (4,704)  | \$ 222,541          |
| Accrued liabilities                                |                                   | 189,243                        | 30,955                            | 291,617                               | (146,814)   | 365,001             |
| Notes payable to banks                             |                                   |                                |                                   | 14,264                                |   | 14,264              |
| Current portion of long-term debt                  |                                   | 9,375                          |                                   |                                       |   | 9,375               |
| Total current liabilities                          |                                   | 360,899                        | 48,822                            | 352,978                               | (151,518)   | 611,181             |
| Long-term debt                                     |                                   | 2,034,000                      | 450,000                           |                                       |   | 2,484,000           |

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|   |           |              |              |            |                |              |
|---|-----------|--------------|--------------|------------|----------------|--------------|
| Other noncurrent liabilities              |           | 238,271      | 16,838       | 12,254     | 3,805          | 271,168      |
| Total liabilities                         |           | 2,633,170    | 515,660      | 365,232    | (147,713)      | 3,366,349    |
| Stockholders equity                       | 69,271    | (478,991)    | 763,323      | 572,404    | (856,736)      | 69,271       |
| Total liabilities and stockholders equity | \$ 69,271 | \$ 2,154,179 | \$ 1,278,983 | \$ 937,636 | \$ (1,004,449) | \$ 3,435,620 |

\* Parent Company refers to Hanesbrands Inc. without its subsidiaries or divisions.

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

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

|   | <b>Parent<br/>Company<br/>(*)</b> | <b>Divisional<br/>Entities</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|---|-----------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net cash provided by (used in) operating activities | \$                                | \$ 115,827                     | \$ 193,721                        | \$ 285,104                            | \$ (358,809)  | \$ 235,843          |
| Investing activities:                               |                                   |                                |                                   |                                       |   |                     |
| Purchases of property and equipment                 |                                   | (25,680)                       | (6,048)                           | (13,659)                              |   | (45,387)            |
| Acquisition of business                             |                                   |                                |                                   | (17,380)                              |   | (17,380)            |
| Proceeds from sales of assets                       |                                   | 7,286                          | 4,870                             | 866                                   |   | 13,022              |
| Other   |                                   | (1,444)                        | 103                               | 3                                     | 763   | (575)               |
| Net cash provided by (used in) investing activities |                                   | (19,838)                       | (1,075)                           | (30,170)                              | 763   | (50,320)            |
| Financing activities:                               |                                   |                                |                                   |                                       |   |                     |
| Principal payments on capital lease obligations     |                                   | (888)                          | (26)                              |                                       |   | (914)               |
| Borrowings on notes payable to banks                |                                   |                                |                                   | 29,969                                |   | 29,969              |
| Repayments on notes payable to banks                |                                   |                                |                                   | (26,845)                              |   | (26,845)            |
| Cost of debt issuance                               |                                   | (2,415)                        | (118)                             |                                       |   | (2,533)             |
| Repayment of debt under credit facilities           |                                   | (128,125)                      |                                   |                                       |   | (128,125)           |
| Decrease in bank overdraft.                         |                                   |                                |                                   | (834)                                 |   | (834)               |
| Proceeds from stock options exercised               |                                   | 5,464                          |                                   |                                       |   | 5,464               |
| Share repurchases                                   |                                   | (44,473)                       |                                   |                                       |   | (44,473)            |
| Other   |                                   | 552                            |                                   |                                       |   | 552                 |
| Net transactions with related entities              |                                   | 41,294                         | (192,913)                         | (206,427)                             | 358,046   |                     |
| Net cash provided by (used in) financing activities |                                   | (128,591)                      | (193,057)                         | (204,137)                             | 358,046   | (167,739)           |

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|   |           |            |            |    |            |
|---|-----------|------------|------------|----|------------|
| Effect of changes in foreign exchange rates on cash |           |            | 2,620      |    | 2,620      |
| Increase (decrease) in cash and cash equivalents    | (32,602)  | (411)      | 53,417     |    | 20,404     |
| Cash and cash equivalents at beginning of year      | 60,960    | (1,251)    | 96,264     |    | 155,973    |
| Cash and cash equivalents at end of period          | \$ 28,358 | \$ (1,662) | \$ 149,681 | \$ | \$ 176,377 |

\* Parent Company refers to Hanesbrands Inc. without its subsidiaries or divisions.

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

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

**Condensed Consolidating Statement of Cash Flows**  
**Nine Months Ended September 30, 2006**

|  | <b>Parent<br/>Company<br/>(* )</b> | <b>Divisional<br/>Entities</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>Entries and<br/>Eliminations</b> | <b>Consolidated</b> |
|--|------------------------------------|--------------------------------|-----------------------------------|---------------------------------------|---|---------------------|
| Net cash provided by<br>(used in) operating<br>activities          | \$                                 | \$ 701,157                     | \$ (809,066)                      | \$ 594,028                            | \$ (285,489)  | \$ 200,630          |
| Investing activities:  |                                    |                                |                                   |                                       |   |                     |
| Purchases of property and<br>equipment                             |                                    | (46,481)                       | (5,651)                           | (27,907)                              |   | (80,039)            |
| Proceeds from sales of<br>assets                                   |                                    | 1,996                          | 138                               | 1,467                                 |   | 3,601               |
| Other  |                                    | 8,736                          | 8,597                             | (17,565)                              | 246   | 14                  |
| Net cash provided by<br>(used in) investing<br>activities          |                                    | (35,749)                       | 3,084                             | (44,005)                              | 246   | (76,424)            |
| Financing activities:  |                                    |                                |                                   |                                       |   |                     |
| Principal payments on<br>capital lease obligations                 |                                    | (3,626)                        | (311)                             |                                       |   | (3,937)             |
| Borrowings on notes<br>payable to banks                            |                                    |                                |                                   | 5,412                                 |   | 5,412               |
| Repayments on notes<br>payable to banks                            |                                    |                                |                                   | (68,413)                              |   | (68,413)            |
| Cost of debt issuance  |                                    | (37,616)                       | (8,290)                           |                                       |   | (45,906)            |
| Issuance of debt under<br>credit facilities                        |                                    | 2,150,000                      | 450,000                           |                                       |   | 2,600,000           |
| Increase in bank<br>overdraft.                                     |                                    |                                | 4,974                             |                                       |   | 4,974               |
| Payments to Sara Lee<br>Corporation                                |                                    | (1,950,000)                    | (450,000)                         |                                       |   | (2,400,000)         |
| Borrowings (repayments)<br>on notes payable to related<br>entities |                                    | (5,988)                        | 20,537                            | (5,825)                               |   | 8,724               |
| Net transactions with<br>parent companies                          |                                    | (598,616)                      | 835,254                           | (615,856)                             | 285,243   | (93,975)            |

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|   |            |           |           |         |            |
|---|------------|-----------|-----------|---------|------------|
| Net transactions with related entities              | (87,089)   | (321,841) | (26,091)  |         | (435,021)  |
| Net cash provided by (used in) financing activities | (532,935)  | 530,323   | (710,773) | 285,243 | (428,142)  |
| Effect of changes in foreign exchange rates on cash |            |           | 2,384     |         | 2,384      |
| Increase (decrease) in cash and cash equivalents    | 132,473    | (275,659) | (158,366) |         | (301,552)  |
| Cash and cash equivalents at beginning of year      | (24,248)   | 292,264   | 242,616   |         | 510,632    |
| Cash and cash equivalents at end of period          | \$ 108,225 | \$ 16,605 | \$ 84,250 | \$      | \$ 209,080 |

\* Parent Company refers to Hanesbrands Inc. without its subsidiaries or divisions.

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**HANESBRANDS**

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

**(13) Issued But Not Yet Effective Accounting Standards**

***Fair Value Measurements***

The FASB has issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ), which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for more information about (1) the extent to which companies measure assets and liabilities at fair value, (2) the information used to measure fair value, and (3) the effect that fair-value measurements have on earnings. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, of SFAS 157 on its results of operations and financial position.

***Pension and Other Postretirement Benefits***

In September 2006, the FASB issued SFAS No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R) ( SFAS 158 ). SFAS 158 requires an employer to recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status, measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions), and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in accumulated other comprehensive loss and as a separate component of stockholders' equity. The Company adopted the provision to recognize the funded status of a benefit plan and the disclosure requirements during the six months ended December 30, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end is effective for fiscal years ending after December 15, 2008. The Company plans to adopt the measurement date provision in fiscal 2007.

***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 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 become effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that SFAS 159 will have on its results of operations and financial position.

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

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see Forward-Looking Statements and Risk Factors for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited combined and consolidated financial statements and notes for the six month period ended December 30, 2006, which were included in our Report on Form 10-KT 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 Report on Form 10-KT.

**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 brands hold either the number one or number two U.S. market position by sales in most product categories in which we compete.

Our operations are managed and reported in five operating segments, each of which is a reportable segment: 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 assets and 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*, *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 *Champion* brand names. Our net sales for the nine months ended September 29, 2007 from our Innerwear segment were \$1.9 billion, representing approximately 57% 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 at Target stores, *C9 by Champion*. 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. Our net sales for the nine months ended September 29, 2007 from our Outerwear segment were \$897 million, representing approximately 27% of total segment net sales.

*Hosiery.* We are the leading marketer of women's sheer hosiery in the United States. We compete in the hosiery market by striving to offer superior values and executing integrated marketing activities, as well as



focusing on the style of our hosiery products. We market hosiery products under our *Hanes*, *L eggs* and *Just My Size* brands. Our net sales for the nine months ended September 29, 2007 from our Hosiery segment were \$189 million, representing approximately 6% of total segment net sales. In light of a sustained decline in the hosiery industry due to changes in consumer preferences, our net annual sales from hosiery sales have declined each year since 1995.

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*International.* International includes products that span across the Innerwear, Outerwear and Hosiery reportable segments. Our net sales for the nine months ended September 29, 2007 in our International segment were \$303 million, representing approximately 9% of total segment net sales and included sales in Europe, Asia, Canada and Latin America. 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 nine months ended September 29, 2007 in our Other segment were \$47 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, Asia and Latin America in order to maintain asset utilization at certain manufacturing facilities.

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.

**Highlights from the Third Quarter and Nine Months Ended September 29, 2007**

Total net sales in the third quarter of 2007 were higher by \$35 million at \$1.15 billion compared to the same quarter in 2006. Total net sales for the nine month period in 2007 were higher by \$43 million at \$3.32 billion compared to the same nine month period in 2006. We had a strong sales performance in the third quarter in a challenging consumer environment. Many retailers have posted soft same store sales figures for September 2007 due to unusually warm weather affecting traffic and impacting demand for colder weather apparel items such as fleece. The short-term impact of these circumstances on our sales remains unclear, but we will continue to invest in our largest and strongest brands to achieve our long-term growth goals.

Operating profit was \$106 million in the third quarter of 2007, up from \$94 million in the same quarter in 2006, and was \$263 million in the nine month period in 2007, compared with \$270 million in the same nine month period in 2006. The higher operating profit in the third quarter of 2007 compared to the same quarter in 2006 is primarily attributable to lower selling, general and administrative expenses and lower restructuring charges for facility closures partially offset by lower gross profit. The lower operating profit in the nine month period in 2007 compared to the same nine month period in 2006 is primarily attributable to higher restructuring charges for facility closures and lower gross profit partially offset by lower selling, general and administrative expenses.

Diluted earnings per share were \$0.40 in the third quarter of 2007, compared with \$0.52 in the same quarter in 2006. For the nine month period in 2007 diluted earnings per share were \$0.79 versus \$1.91 a year ago. The

decline in the third quarter was primarily a result of increased interest expense associated with our independent structure. In the nine month period in 2007, the decline in diluted earnings per share reflected increased interest expense, higher restructuring and related charges and a higher tax rate.

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Using cash flow from operating activities, we made a \$75 million prepayment of long-term debt and repurchased \$29 million of company stock during the third quarter of 2007. For the first nine months of the year, we repaid \$128 million of long-term debt, repurchased \$44 million in company stock and voluntarily contributed \$48 million to our qualified pension plans.

During the third quarter of 2007, we substantially completed the separation of pension plan assets and liabilities from those of our former parent. As a result, our qualified pension plans are approximately 97% funded.

We acquired our second offshore textile plant, the 1,300-employee textile manufacturing operations of Industrias Duraflex, S.A. de C.V., in San Juan Opico, El Salvador. This acquisition provides a textile base in Central America from which to expand and leverage our large scale as well as supply our sewing network throughout Central America. Also, we announced plans to build a textile production plant in Nanjing, China which will be the first company-owned textile production facility in Asia. The Nanjing textile facility will enable us to expand and leverage our production scale in Asia as we balance our supply chain across hemispheres.

In the nine month period in 2007, we entered into a first amendment to our senior secured credit facility with our lenders which primarily lowered the borrowing applicable margin with respect to the Term B loan facility from 2.25% to 1.75% on LIBOR based loans and from 1.25% to 0.75% on Base Rate loans.

We approved actions to close 14 manufacturing facilities and two distribution centers in the United States, Canada, the Dominican Republic, Mexico, Brazil and Puerto Rico during the nine month period in 2007. In addition, we completed previously announced actions in the nine month period in 2007. The net impact of these actions was to reduce income before taxes for the nine month period in 2007 by \$76 million.

**Condensed Consolidated Results of Operations Third Quarter Ended September 29, 2007 Compared with Third Quarter Ended September 30, 2006**

|  | <b>Quarter Ended</b>          |                               |                           |                           |
|--|-------------------------------|-------------------------------|---------------------------|---------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|  | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                                    | \$ 1,153,606                  | \$ 1,118,968                  | \$ 34,638                 | 3.1%                      |
| Cost of sales                                | 792,587                       | 753,337                       | 39,250                    | 5.2                       |
| Gross profit                                 | 361,019                       | 365,631                       | (4,612)                   | (1.3)                     |
| Selling, general and administrative expenses | 253,233                       | 262,426                       | (9,193)                   | (3.5)                     |
| Restructuring                                | 2,062                         | 9,313                         | (7,251)                   | (77.9)                    |
| Operating profit                             | 105,724                       | 93,892                        | 11,832                    | 12.6                      |
| Other expenses                               | 889                           |                               | 889                       | NM                        |
| Interest expense, net                        | 49,270                        | 17,569                        | 31,701                    | 180.4                     |
| Income before income tax expense             | 55,565                        | 76,323                        | (20,758)                  | (27.2)                    |
| Income tax expense                           | 16,669                        | 25,978                        | (9,309)                   | (35.8)                    |

|            |    |        |    |        |    |          |         |
|------------|----|--------|----|--------|----|----------|---------|
| Net income | \$ | 38,896 | \$ | 50,345 | \$ | (11,449) | (22.7)% |
|------------|----|--------|----|--------|----|----------|---------|

*Net Sales*

|           | <b>Quarter Ended</b>          |                               |                           |                           |
|-----------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|           | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|           | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales | \$ 1,153,606                  | \$ 1,118,968                  | \$ 34,638                 | 3.1%                      |

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Consolidated net sales were higher by \$35 million or 3.1% in the third quarter of 2007 compared to the same quarter in 2006. Our Outerwear, International, Hosiery and Other segment net sales were higher by \$31 million, \$10 million, \$7 million and \$3 million, respectively, and were offset by lower segment net sales in Innerwear of \$16 million.

The overall higher net sales were primarily due to growth in sales volume in *Hanes* brand casualwear and sock sales, *Champion* brand activewear sales and *Bali* brand intimate apparel sales. The higher net sales were partially offset by lower *Hanes* brand kids underwear sales, lower licensed men's underwear sales in the department store channel and lower *Playtex* brand intimate apparel sales. We experienced double-digit gains in the Hosiery and International segments that were driven by core hosiery product strength and growth in the European casualwear business. The double-digit gains in Hosiery segment net sales this quarter were significantly better than the historical trend of a sustained decline in overall industry sales for the last several years.

**Gross Profit**

|              | Quarter Ended          |                       | Higher<br>(Lower) | Percent<br>Change |
|--------------|------------------------|-----------------------|-------------------|-------------------|
|              | September 29,<br>2007  | September 30,<br>2006 |                   |                   |
|              | (dollars in thousands) |                       |                   |                   |
| Gross profit | \$ 361,019             | \$ 365,631            | \$ (4,612)        | (1.3)%            |

As a percent of net sales, our gross profit percentage was 31.3% in the third quarter of 2007 compared to 32.7% in the same quarter in 2006. The lower gross profit percentage was primarily due to higher excess and obsolete inventory costs of \$14 million, higher accelerated depreciation of \$7 million and higher cotton costs of \$4 million, offset by \$14 million of savings from our cost reduction initiatives and prior restructuring actions, and lower allocations of overhead costs of \$7 million. Cotton prices, which were approximately 45 cents per pound in the first half of 2006, returned to the historical average of approximately 55 cents per pound in the second half of calendar 2006 and the first nine months of 2007.

The higher excess and obsolete inventory costs this quarter compared to the prior year quarter are primarily attributable to such costs having been unusually low during the prior year third quarter, in which we were completing our spin off. The higher accelerated depreciation in the third quarter of 2007 was a result of facilities closed or that will be closed in connection with our consolidation and globalization strategy.

**Selling, General and Administrative Expenses**

|  | Quarter Ended          |                       | Higher<br>(Lower) | Percent<br>Change |
|--|------------------------|-----------------------|-------------------|-------------------|
|  | September 29,<br>2007  | September 30,<br>2006 |                   |                   |
|  | (dollars in thousands) |                       |                   |                   |
| Selling, general and administrative expenses | \$ 253,233             | \$ 262,426            | \$ (9,193)        | (3.5)%            |

Selling, general and administrative expenses were \$9 million lower in the third quarter of 2007 compared to the same quarter in 2006. Our expenses were lower in the third quarter of 2007 primarily due to lower spin off and related charges of \$18 million, \$5 million of savings from our prior restructuring actions, \$5 million of lower media, advertising and promotion expenses that were primarily non-media related, and \$2 million of amortization of gain on

curtailment of postretirement benefits. The lower non-media expenses are primarily attributable to cost reduction initiatives and better deployment of these resources. In addition, our pension expense was lower by \$10 million which included a \$5 million adjustment related to the final separation of our pension assets and liabilities from those of Sara Lee Corporation ( Sara Lee ).

Our cost reduction efforts during the quarter have allowed us to offset higher stand alone expenses associated with being an independent company of \$11 million and make investments in our strategic initiatives resulting in \$7 million of higher media related media, advertising and promotion expenses and higher technology consulting expenses of \$3 million during the third quarter of 2007. In addition, our allocations of overhead costs were \$7 million lower during the third quarter of 2007 compared to the same quarter in 2006.

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Accelerated depreciation was \$1 million higher in the third quarter of 2007 as a result of facilities closed or that will be closed in connection with our consolidation and globalization strategy.

***Restructuring***

|               | <b>Quarter Ended</b>          |                               |                           |                           |
|---------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|               | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|               | <b>(dollars in thousands)</b> |                               |                           |                           |
| Restructuring | \$ 2,062                      | \$ 9,313                      | \$ (7,251)                | (77.9)%                   |

During the third quarter of 2007, we eliminated approximately 223 positions in Canada, Mexico and Brazil. We incurred a charge of \$2 million primarily attributable to employee and other termination benefits recognized in accordance with benefit plans previously communicated to the affected employee group.

In connection with our consolidation and globalization strategy, a non-cash charge of \$12 million and \$1 million, respectively, of accelerated depreciation of buildings and equipment for facilities that have been closed or will be closed is reflected in the *Cost of sales* and *Selling, general and administrative expenses* lines of the Condensed Consolidated Statement of Income. These actions, which are a continuation of our consolidation and globalization strategy, are expected to result in benefits of moving production to lower-cost manufacturing facilities, leveraging our large scale in high-volume products and consolidating production capacity.

***Operating Profit***

|                  | <b>Quarter Ended</b>          |                               |                           |                           |
|------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                  | <b>(dollars in thousands)</b> |                               |                           |                           |
| Operating profit | \$ 105,724                    | \$ 93,892                     | \$ 11,832                 | 12.6%                     |

Operating profit was higher in the third quarter of 2007 by \$12 million compared to the same quarter in 2006 primarily as a result of lower selling, general and administrative expenses of \$9 million, and lower restructuring charges for facility closures of \$7 million offset by lower gross profit of \$5 million which included an increase of \$7 million in accelerated depreciation. Our ability to control costs and execute on our consolidation and globalization strategy during the third quarter of 2007 has allowed us to partially offset higher investments in our strategic initiatives of \$10 million and \$11 million of higher standalone expenses associated with being an independent company.

***Other Expenses***

|  | <b>Quarter Ended</b>          |                               |                           |                           |
|--|-------------------------------|-------------------------------|---------------------------|---------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|  | <b>(dollars in thousands)</b> |                               |                           |                           |



|                |        |    |        |    |
|----------------|--------|----|--------|----|
| Other expenses | \$ 889 | \$ | \$ 889 | NM |
|----------------|--------|----|--------|----|

We recognized a loss on early extinguishment of debt related to unamortized debt issuance costs on the Senior Secured Credit Facility for the prepayment of \$75 million of principal in September 2007.

***Interest Expense, net***

|                       | <b>Quarter Ended</b>          |                      | <b>Higher</b>  | <b>Percent</b> |
|-----------------------|-------------------------------|----------------------|----------------|----------------|
|                       | <b>September 29,</b>          | <b>September 30,</b> | <b>(Lower)</b> | <b>Change</b>  |
|                       | <b>2007</b>                   | <b>2006</b>          |                |                |
|                       | <b>(dollars in thousands)</b> |                      |                |                |
| Interest expense, net | \$ 49,270                     | \$ 17,569            | \$ 31,701      | 180.4%         |

Interest expense, net was higher by \$32 million in the third quarter of 2007 compared to the same quarter in 2006 primarily as a result of the indebtedness incurred in connection with the spin off from Sara Lee on

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September 5, 2006, consisting of \$2.6 billion pursuant to a new senior secured credit facility, a new senior secured second lien credit facility and a bridge loan facility. The higher interest expense was primarily attributable to the fact that we had three months of interest in the third quarter of 2007 compared to one month of interest in the same quarter of 2006. In December 2006, we issued \$500 million of floating rate senior notes, and the net proceeds were used to repay the bridge loan facility.

***Income Tax Expense***

|                    | <b>Quarter Ended</b>          |                               |                           |                           |
|--------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                    | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                    | <b>(dollars in thousands)</b> |                               |                           |                           |
| Income tax expense | \$ 16,669                     | \$ 25,978                     | \$ (9,309)                | (35.8)%                   |

Our effective income tax rate was 30.0% in the third quarter of 2007 compared to 34.0% in the same quarter in 2006. The lower effective tax rate is attributable primarily to higher unremitted earnings from foreign subsidiaries in the third quarter of 2007 taxed at rates less than the U.S. statutory rate.

***Net Income***

|            | <b>Quarter Ended</b>          |                               |                           |                           |
|------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|            | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|            | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net income | \$ 38,896                     | \$ 50,345                     | \$ (11,449)               | (22.7)%                   |

Net income for the third quarter of 2007 was lower than the same quarter in 2006 primarily due to higher interest expense, which was partially offset by lower selling, general and administrative expenses, lower restructuring and related charges and a lower effective income tax rate.

**Table of Contents****Operating Results by Business Segment Third Quarter Ended September 29, 2007 Compared with Third Quarter Ended September 30, 2006**

|  | <b>Quarter Ended</b>          |                               |                           |                           |
|--|-------------------------------|-------------------------------|---------------------------|---------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|  | <b>(dollars in thousands)</b> |                               |                           |                           |
| <b>Net sales:</b>  |                               |                               |                           |                           |
| Innerwear  | \$ 635,167                    | \$ 651,183                    | \$ (16,016)               | (2.5)%                    |
| Outerwear  | 349,352                       | 318,320                       | 31,032                    | 9.7                       |
| Hosiery  | 64,120                        | 56,707                        | 7,413                     | 13.1                      |
| International  | 103,341                       | 93,126                        | 10,215                    | 11.0                      |
| Other  | 13,587                        | 10,796                        | 2,791                     | 25.9                      |
| Total segment net sales  | 1,165,567                     | 1,130,132                     | 35,435                    | 3.1                       |
| Intersegment   | (11,961)                      | (11,164)                      | 797                       | 7.1                       |
| Total net sales  | \$ 1,153,606                  | \$ 1,118,968                  | \$ 34,638                 | 3.1%                      |
| <b>Segment operating profit:</b>   |                               |                               |                           |                           |
| Innerwear  | \$ 63,173                     | \$ 93,204                     | \$ (30,031)               | (32.2)%                   |
| Outerwear  | 36,051                        | 25,287                        | 10,764                    | 42.6                      |
| Hosiery  | 18,670                        | 9,590                         | 9,080                     | 94.7                      |
| International  | 9,616                         | 5,875                         | 3,741                     | 63.7                      |
| Other  | (306)                         | 138                           | (444)                     | (321.7)                   |
| Total segment operating profit   | 127,204                       | 134,094                       | (6,890)                   | (5.1)                     |
| Items not included in segment operating profit:                          |                               |                               |                           |                           |
| General corporate expenses   | (5,225)                       | (24,829)                      | (19,604)                  | (79.0)                    |
| Amortization of trademarks and other identifiable intangibles            | (1,442)                       | (1,667)                       | (225)                     | (13.5)                    |
| Restructuring  | (2,062)                       | (9,313)                       | (7,251)                   | (77.9)                    |
| Inventory write-off included in cost of sales                            | (186)                         |                               | 186                       | NM                        |
| Accelerated depreciation in cost of sales                                | (11,616)                      | (4,393)                       | 7,223                     | 164.4                     |
| Accelerated depreciation in selling, general and administrative expenses | (949)                         |                               | 949                       | NM                        |
| Total operating profit   | 105,724                       | 93,892                        | 11,832                    | 12.6                      |
| Other expenses   | (889)                         |                               | 889                       | NM                        |
| Interest expense, net  | (49,270)                      | (17,569)                      | 31,701                    | 180.4                     |
| Income before income tax expense   | \$ 55,565                     | \$ 76,323                     | \$ (20,758)               | (27.2)%                   |

**Innerwear****Quarter Ended**

|                          | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|--------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                          | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                | \$ 635,167                    | \$ 651,183                    | \$ (16,016)               | (2.5)%                    |
| Segment operating profit | 63,173                        | 93,204                        | (30,031)                  | (32.2)                    |

Overall net sales in the Innerwear segment were lower by \$16 million or 2.5% in the third quarter of 2007 compared to the same quarter in 2006. We experienced lower sales of *Hanes* brand kids underwear of \$11 million, lower licensed men's underwear sales in the department store channel of \$5 million, lower *Hanes* brand intimate apparel sales of \$4 million, lower *Playtex* brand intimate apparel sales of \$4 million and lower *Just My Size* brand sales of \$3 million. The lower net sales were partially offset by higher *Hanes* brand socks and *Bali* brand sales of \$6 million and \$6 million, respectively.

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As a percent of segment net sales, gross profit percentage in the Innerwear segment was 35.7% in the third quarter of 2007 compared to 37.0% in the same quarter in 2006. The lower gross profit is primarily attributable to higher excess and obsolete inventory costs of \$11 million, unfavorable product sales mix of \$6 million, unfavorable plant performance of \$4 million and higher cotton costs of \$2 million. These higher expenses were partially offset by savings from our cost reduction initiatives of \$5 million and lower allocations of overhead costs of \$4 million.

The lower Innerwear segment operating profit in the third quarter of 2007 compared to the same quarter in 2006 is primarily attributable to lower gross profit on lower sales volume, higher media, advertising and promotion expenses of \$8 million and a higher allocation of selling, general and administrative expenses of \$8 million. Our consolidated selling, general and administrative expenses before segment allocations were lower in the third quarter of 2007 compared to the same quarter in 2006 primarily due to lower spin off and related charges, lower pension expense and amortization of gain on curtailment of postretirement benefits which were partially offset by higher stand alone expenses associated with being an independent company, lower allocations of overhead costs, higher accelerated depreciation and higher technology consulting expenses.

**Outerwear**

|                          | <b>Quarter Ended</b>          |                               |                           |                           |
|--------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                          | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                          | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                | \$ 349,352                    | \$ 318,320                    | \$ 31,032                 | 9.7%                      |
| Segment operating profit | 36,051                        | 25,287                        | 10,764                    | 42.6                      |

Net sales in the Outerwear segment were higher by \$31 million in the third quarter of 2007 compared to the same quarter in 2006 primarily as a result of higher *Hanes* brand casualwear sales of \$20 million and higher *Champion* brand activewear sales of \$7 million. *Champion*, our second largest brand, benefited from higher penetration in the mid-tier department store and sporting goods channels. In addition, we experienced higher sales of promotional *Hanes* brand t-shirts sold primarily through our embellishment channel of \$3 million. The strong Outerwear performance was primarily driven by a return to focusing on basic apparel in the mass retail channel for casualwear.

As a percent of segment net sales, gross profit percentage in the Outerwear segment was 23.6% in the third quarter of 2007 compared to 21.6% in the same quarter in 2006. The higher gross profit is primarily attributable to improved plant performance of \$7 million, savings from our cost reduction initiatives and prior restructuring actions of \$7 million, favorable product sales mix of \$6 million and lower allocations of overhead costs of \$2 million, offset primarily by higher excess and obsolete inventory costs of \$4 million, higher duty costs of \$3 million and higher cotton costs of \$2 million.

The higher Outerwear segment operating profit in the third quarter of 2007 compared to the same quarter in 2006 is primarily attributable to higher gross profit and lower media, advertising and promotion expenses of \$4 million partially offset by a higher allocation of selling, general and administrative expenses of \$7 million. Our consolidated selling, general and administrative expenses before segment allocations were lower in the third quarter of 2007 compared to the same quarter in 2006 primarily due to lower spin off and related charges, lower pension expense and amortization of gain on curtailment of postretirement benefits which were partially offset by higher stand alone expenses associated with being an independent company, lower allocations of overhead costs, higher accelerated depreciation and higher technology consulting expenses.

*Hosiery*

|                          | <b>Quarter Ended</b>          |                               |                           |                           |
|--------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                          | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                          | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                | \$ 64,120                     | \$ 56,707                     | \$ 7,413                  | 13.1%                     |
| Segment operating profit | 18,670                        | 9,590                         | 9,080                     | 94.7                      |

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Net sales in the Hosiery segment were higher by \$7 million in the third quarter of 2007 compared to the same quarter in 2006 primarily due to higher sales of the *L eggs* brand to mass retailers and food and drug stores.

As a percent of segment net sales, gross profit percentage was 46.4% in the third quarter of 2007 compared to 40.9% in the same quarter in 2006 primarily due favorable product sales mix of \$4 million and savings from our cost reduction initiatives and prior restructuring actions of \$2 million.

Hosiery segment operating profit was higher in the third quarter of 2007 compared to the same quarter in 2006 primarily due to the improvement in gross profit and lower media, advertising and promotion expenses of \$3 million. The amount of allocated selling, general and administrative expenses remained consistent as compared to the same quarter in 2006. Our consolidated selling, general and administrative expenses before segment allocations were lower in the third quarter of 2007 compared to the same quarter in 2006 primarily due to lower spin off and related charges, lower pension expense and amortization of gain on curtailment of postretirement benefits which were partially offset by higher stand alone expenses associated with being an independent company, lower allocations of overhead costs, higher accelerated depreciation and higher technology consulting expenses.

**International**

|                          | <b>Quarter Ended</b>          |                               |                           |                           |
|--------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                          | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                          | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                | \$ 103,341                    | \$ 93,126                     | \$ 10,215                 | 11.0%                     |
| Segment operating profit | 9,616                         | 5,875                         | 3,741                     | 63.7                      |

Overall net sales in the International segment were higher in the third quarter of 2007 compared to the same quarter in 2006. During the third quarter of 2007 we experienced higher net sales in Europe of \$7 million and Latin America of \$3 million. The growth in our European casualwear business was driven by the strength of the *Stedman* and *Hanes* brands that are sold in the screen print channel. Changes in foreign currency exchange rates had a favorable impact on net sales of \$4 million in the third quarter of 2007 compared to the same quarter in 2006.

As a percent of segment net sales, gross profit percentage was 39.2% in the third quarter in 2007 compared to 40.8% in the same quarter in 2006. The lower gross profit percentage was primarily attributable to unfavorable product sales mix.

The higher International segment operating profit in the third quarter of 2007 compared to the same quarter in 2006 is primarily attributable to the higher gross profit from higher sales volume. Changes in foreign currency exchange rates had a favorable impact on segment operating profit of \$1 million in the third quarter of 2007 compared to the same quarter in 2006.

**Other**

|  | <b>Quarter Ended</b>          |                               |                           |                           |
|--|-------------------------------|-------------------------------|---------------------------|---------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|  | <b>(dollars in thousands)</b> |                               |                           |                           |

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|                          |           |           |          |         |
|--------------------------|-----------|-----------|----------|---------|
| Net sales                | \$ 13,587 | \$ 10,796 | \$ 2,791 | 25.9%   |
| Segment operating profit | (306)     | 138       | (444)    | (321.7) |

Overall net higher net sales from our Other segment increased primarily due to higher sales of nonfinished fabric and other materials to third parties in the third quarter of 2007 as compared to the same quarter of 2006. Net sales of this segment are generated for the purpose of maintaining asset utilization at certain manufacturing facilities.



**Table of Contents*****General Corporate Expenses***

General corporate expenses were lower in the third quarter of 2007 compared to the same quarter in 2006 primarily due to lower spin off and related charges of \$19 million, a \$5 million favorable adjustment related to the final separation of our pension plan assets and liabilities from those of Sara Lee, amortization of gain on postretirement benefits of \$2 million and \$3 million in lower expenses related to various areas partially offset by higher stand alone expenses associated with being an independent company of \$11 million.

**Condensed Consolidated Results of Operations    Nine Months Ended September 29, 2007 Compared with Nine Months Ended September 30, 2006**

|  | <b>Nine Months Ended</b>      |                               |                           |                           |
|--|-------------------------------|-------------------------------|---------------------------|---------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|  | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                                    | \$ 3,315,407                  | \$ 3,271,961                  | \$ 43,446                 | 1.3%                      |
| Cost of sales                                | 2,234,352                     | 2,183,977                     | 50,375                    | 2.3                       |
| Gross profit                                 | 1,081,055                     | 1,087,984                     | (6,929)                   | (0.6)                     |
| Selling, general and administrative expenses | 773,817                       | 808,393                       | (34,576)                  | (4.3)                     |
| Restructuring                                | 44,533                        | 9,551                         | 34,982                    | 366.3                     |
| Operating profit                             | 262,705                       | 270,040                       | (7,335)                   | (2.7)                     |
| Other expenses                               | 1,440                         |                               | 1,440                     | NM                        |
| Interest expense, net                        | 152,217                       | 26,437                        | 125,780                   | 475.8                     |
| Income before income tax expense             | 109,048                       | 243,603                       | (134,555)                 | (55.2)                    |
| Income tax expense                           | 32,714                        | 59,381                        | (26,667)                  | (44.9)                    |
| Net income                                   | \$ 76,334                     | \$ 184,222                    | \$ (107,888)              | (58.6)%                   |

***Net Sales***

|           | <b>Nine Months Ended</b>      |                               |                           |                           |
|-----------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|           | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|           | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales | \$ 3,315,407                  | \$ 3,271,961                  | \$ 43,446                 | 1.3%                      |

Consolidated net sales were higher by \$43 million or 1.3% in the nine month period in 2007 compared to the same nine month period in 2006. Our Outerwear, International and Other segment net sales were higher by \$40 million, \$8 million and \$11 million, respectively, and were offset by lower segment net sales in Innerwear of \$13 million and Hosiery of \$2 million.

The overall higher net sales were partially due to growth in sales volume in *Hanes* brand casualwear, intimate apparel, sleepwear and socks sales, *Champion* brand activewear sales and *Bali* brand intimate apparel sales. The higher net sales were offset primarily by lower *Hanes* brand kids underwear sales, lower licensed men's underwear sales in the department store channel and lower *Playtex* brand intimate apparel sales and lower sales of promotional t-shirts sold primarily through our embellishment channel.

The relatively flat Hosiery segment net sales in the nine month period in 2007 were significantly better than the historical trend of a sustained decline in overall industry sales for the last several years.

The higher net sales from our Other segment primarily resulted from an immaterial change in the way we recognized sales to third party suppliers in the same nine month period in 2006. The full year change was reflected in the same nine month period in 2006 with a \$5 million impact on net sales and minimal impact on net income.

**Table of Contents****Gross Profit**

|              | <b>Nine Months Ended</b>      |                               | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|--------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|              | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |                           |                           |
|              | <b>(dollars in thousands)</b> |                               |                           |                           |
| Gross profit | \$ 1,081,055                  | \$ 1,087,984                  | \$ (6,929)                | (0.6)%                    |

As a percent of net sales, our gross profit percentage was 32.6% in the nine month period in 2007 compared to 33.3% in the same nine month period in 2006. The lower gross profit percentage was primarily due to \$25 million in higher accelerated depreciation, higher cotton costs of \$22 million and higher excess and obsolete inventory costs of \$17 million. Cotton prices, which were approximately 45 cents per pound in the first half of 2006, returned to the historical average of approximately 55 cents per pound in the second half of calendar 2006 and the first nine months of 2007. These higher costs were offset primarily by savings from our cost reduction initiatives and prior restructuring actions of \$24 million, lower allocations of overhead costs of \$22 million, and lower duty costs of \$12 million primarily due to the receipt of \$7 million in duty refunds relating to duties paid several years ago.

The higher excess and obsolete inventory costs in the nine month period in 2007 compared to the same nine month period in 2006 are primarily attributable to such costs having been unusually low during the prior year third quarter, in which we were completing our spin off. Since the spin off we have a renewed focus on both inventory level reductions and simplification of our product offerings that has not resulted in significantly higher excess and obsolete inventory costs. The higher accelerated depreciation in the nine month period in 2007 was a result of facilities closed or that will be closed in connection with our consolidation and globalization strategy.

**Selling, General and Administrative Expenses**

|  | <b>Nine Months Ended</b>      |                               | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|--|-------------------------------|-------------------------------|---------------------------|---------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> |                           |                           |
|  | <b>(dollars in thousands)</b> |                               |                           |                           |
| Selling, general and administrative expenses | \$ 773,817                    | \$ 808,393                    | \$ (34,576)               | (4.3)%                    |

Selling, general and administrative expenses were \$35 million lower in the nine month period in 2007 compared to the same nine month period in 2006. Our expenses were lower partially due to lower spin off and related charges of \$36 million, \$26 million of lower media, advertising and promotion expenses that were primarily non-media related, \$6 million in amortization of gain on curtailment of postretirement benefits and \$5 million of savings from prior restructuring actions. The lower media, advertising and promotion expenses are primarily non-media related and may vary from period to period due to timing of actual spending during the full year 2007 versus 2006. The lower non-media expenses are primarily attributable to cost reduction initiatives and better deployment of these resources. In addition, our pension expense was lower by \$12 million which included a \$5 million adjustment related to the final separation of our pension assets and liabilities from those of Sara Lee.

Our cost reduction efforts during the nine month period have allowed us to offset higher stand alone expenses associated with being an independent company of \$11 million and make investments in our strategic initiatives resulting in higher technology consulting expenses of \$10 million and \$7 million of higher media related media,

advertising and promotion expenses in the nine month period in 2007. In addition, our allocations of overhead costs were \$22 million lower during the nine month period in 2007 compared to the same nine month period in 2006. Accelerated depreciation was \$2 million higher in the nine month period in 2007 as a result of facilities closed or that will be closed in connection with our consolidation and globalization strategy.

**Table of Contents*****Restructuring***

|               | <b>Nine Months Ended</b>      |                               |                           |                           |
|---------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|               | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|               | <b>(dollars in thousands)</b> |                               |                           |                           |
| Restructuring | \$ 44,533                     | \$ 9,551                      | \$ 34,982                 | 366.3%                    |

During the nine month period in 2007, we approved actions to close 14 manufacturing facilities and two distribution centers affecting approximately 7,475 employees in Canada, the Dominican Republic, Mexico, Brazil and the United States while moving production to lower-cost operations in Central America and Asia. In addition, approximately 428 management and administrative positions are being eliminated, with the majority of these positions based in the United States. These actions resulted in a charge of \$45 million, representing costs associated with the planned termination of 7,903 employees, primarily attributable to employee and other termination benefits recognized in accordance with benefit plans previously communicated to the affected employee group. In addition, we recognized a charge of \$10 million for estimated lease termination costs associated with facility closures announced in the nine months ended September 30, 2006, for facilities which were exited during 2007.

In connection with our consolidation and globalization strategy, a non-cash charge of \$29 million and \$2 million, respectively, of accelerated depreciation of buildings and equipment for facilities that have been closed or will be closed is reflected in the Cost of sales and Selling, general and administrative expenses lines of the Condensed Consolidated Statement of Income. These actions, which are a continuation of our consolidation and globalization strategy, are expected to result in benefits of moving production to lower-cost manufacturing facilities, leveraging our large scale in high-volume products and consolidating production capacity.

***Operating Profit***

|                  | <b>Nine Months Ended</b>      |                               |                           |                           |
|------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                  | <b>(dollars in thousands)</b> |                               |                           |                           |
| Operating profit | \$ 262,705                    | \$ 270,040                    | \$ (7,335)                | (2.7)%                    |

Operating profit was lower in the nine month period in 2007 by \$7 million compared to the same nine month period in 2006 primarily as a result of higher restructuring charges of \$35 million and lower gross profit of \$7 million partially offset by lower selling, general and administrative expenses of \$35 million. Our ability to control costs and execute on our consolidation and globalization strategy during the nine month period in 2007 has allowed us to more than offset \$17 million of higher investments in our strategic initiatives and \$11 million of higher standalone expenses associated with being an independent company.

***Other Expenses***

|  | <b>Nine Months Ended</b> |                      |               |                |
|--|--------------------------|----------------------|---------------|----------------|
|  | <b>September 29,</b>     | <b>September 30,</b> | <b>Higher</b> | <b>Percent</b> |

|                | <b>2007</b>                   | <b>2006</b> | <b>(Lower)</b> | <b>Change</b> |
|----------------|-------------------------------|-------------|----------------|---------------|
|                | <b>(dollars in thousands)</b> |             |                |               |
| Other expenses | \$ 1,440                      | \$          | \$ 1,440       | NM            |

We recognized losses on early extinguishment of debt related to unamortized debt issuance costs on the Senior Secured Credit Facility for the prepayment of \$50 million of principal in June 2007 and \$75 million of principal in September 2007.

*Interest Expense, net*

|                       | <b>Nine Months Ended</b>      |                               |                           | <b>Percent</b> |
|-----------------------|-------------------------------|-------------------------------|---------------------------|----------------|
|                       | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Change</b>  |
|                       | <b>(dollars in thousands)</b> |                               |                           |                |
| Interest expense, net | \$ 152,217                    | \$ 26,437                     | \$ 125,780                | 475.8%         |

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Interest expense, net was higher in the nine month period in 2007 by \$126 million compared to the same nine month period in 2006 primarily as a result of the indebtedness incurred in connection with the spin off from Sara Lee on September 5, 2006, consisting of \$2.6 billion pursuant to a new senior secured credit facility, a new senior secured second lien credit facility and a bridge loan facility. In December 2006, we issued \$500 million of floating rate senior notes and the net proceeds were used to repay the bridge loan facility. In February 2007, we entered into a first amendment to our senior secured credit facility with our lenders which primarily lowered the applicable borrowing margin with respect to the Term B loan facility from 2.25% to 1.75% on LIBOR based loans and from 1.25% to 0.75% on Base Rate loans.

***Income Tax Expense***

|                    | <b>Nine Months Ended</b>      |                               |                           |                           |
|--------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                    | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                    | <b>(dollars in thousands)</b> |                               |                           |                           |
| Income tax expense | \$ 32,714                     | \$ 59,381                     | \$ (26,667)               | (44.9)%                   |

Our effective income tax rate was 30.0% in the nine month period in 2007 compared to 24.4% in the same nine month period in 2006. The higher effective tax rate is attributable primarily to lower unremitted earnings from foreign subsidiaries in the nine month period in 2007 taxed at rates less than the U.S. statutory rate.

***Net Income***

|            | <b>Nine Months Ended</b>      |                               |                           |                           |
|------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|            | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|            | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net income | \$ 76,334                     | \$ 184,222                    | \$ (107,888)              | (58.6)%                   |

Net income for the nine month period of 2007 was lower than the same nine month period in 2006 primarily due to higher interest expense and a higher effective income tax rate as a result of our independent structure, as well as higher restructuring and related charges. These higher expenses were partially offset by lower selling, general and administrative expenses.

**Table of Contents****Operating Results by Business Segment Nine Months Ended September 29, 2007 Compared with Nine Months Ended September 30, 2006**

|  | <b>Nine Months Ended</b>      |                               |                           |                           |
|--|-------------------------------|-------------------------------|---------------------------|---------------------------|
|  | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|  | <b>(dollars in thousands)</b> |                               |                           |                           |
| <b>Net sales:</b>  |                               |                               |                           |                           |
| Innerwear  | \$ 1,917,118                  | \$ 1,930,282                  | \$ (13,164)               | (0.7)%                    |
| Outerwear  | 896,583                       | 856,129                       | 40,454                    | 4.7                       |
| Hosiery  | 189,215                       | 190,894                       | (1,679)                   | (0.9)                     |
| International  | 303,119                       | 295,564                       | 7,555                     | 2.6                       |
| Other  | 46,629                        | 36,085                        | 10,544                    | 29.2                      |
| Total segment net sales  | 3,352,664                     | 3,308,954                     | 43,710                    | 1.3                       |
| Intersegment   | (37,257)                      | (36,993)                      | 264                       | 0.7                       |
| Total net sales  | \$ 3,315,407                  | \$ 3,271,961                  | \$ 43,446                 | 1.3%                      |
| <b>Segment operating profit:</b>   |                               |                               |                           |                           |
| Innerwear  | \$ 243,821                    | \$ 260,724                    | \$ (16,903)               | (6.5)%                    |
| Outerwear  | 54,453                        | 61,281                        | (6,828)                   | (11.1)                    |
| Hosiery  | 52,849                        | 22,666                        | 30,183                    | 133.2                     |
| International  | 34,321                        | 28,438                        | 5,883                     | 20.7                      |
| Other  | (17)                          | (505)                         | 488                       | 96.6                      |
| Total segment operating profit   | 385,427                       | 372,604                       | 12,823                    | 3.4                       |
| Items not included in segment operating profit:                          |                               |                               |                           |                           |
| General corporate expenses   | (42,294)                      | (81,967)                      | (39,673)                  | (48.4)                    |
| Amortization of trademarks and other intangibles                         | (4,516)                       | (6,653)                       | (2,137)                   | (32.1)                    |
| Restructuring  | (44,533)                      | (9,551)                       | 34,982                    | 366.3                     |
| Inventory write-off included in cost of sales                            | (186)                         |                               | 186                       | NM                        |
| Accelerated depreciation in cost of sales                                | (29,296)                      | (4,393)                       | 24,903                    | 566.9                     |
| Accelerated depreciation in selling, general and administrative expenses | (1,897)                       |                               | 1,897                     | NM                        |
| Total operating profit   | 262,705                       | 270,040                       | (7,335)                   | (2.7)                     |
| Other expenses   | (1,440)                       |                               | 1,440                     | NM                        |
| Interest expense, net  | (152,217)                     | (26,437)                      | 125,780                   | 475.8                     |
| Income before income tax expense   | \$ 109,048                    | \$ 243,603                    | \$ (134,555)              | (55.2)%                   |

**Innerwear**

|  | <b>Nine Months Ended</b> |                      |               |                |
|--|--------------------------|----------------------|---------------|----------------|
|  | <b>September 29,</b>     | <b>September 30,</b> | <b>Higher</b> | <b>Percent</b> |



|                          | <b>2007</b>  | <b>2006</b>                   | <b>(Lower)</b> | <b>Change</b> |
|--------------------------|--------------|-------------------------------|----------------|---------------|
|                          |              | <b>(dollars in thousands)</b> |                |               |
| Net sales                | \$ 1,917,118 | \$ 1,930,282                  | \$ (13,164)    | (0.7)%        |
| Segment operating profit | 243,821      | 260,724                       | (16,903)       | (6.5)         |

Overall net sales in the Innerwear segment were lower by \$13 million or 0.7% in the nine month period in 2007 compared to the same nine month period in 2006. We experienced lower sales volume of *Playtex* brand intimate apparel sales of \$23 million, lower *Hanes* brand kids underwear sales of \$17 million and lower licensed men's underwear sales in the department store channel of \$11 million. The lower net sales were partially offset by higher *Hanes* brand intimate apparel, socks and sleepwear sales of \$14 million, \$11 million

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and \$7 million, respectively, and higher *Bali* brand sales of \$6 million. Our *Hanes* brand intimate apparel sales were higher primarily as a result of the *Hanes All-Over Comfort Bra* that was introduced earlier this year in a new national television, print and Internet advertising campaign.

As a percent of segment net sales, gross profit percentage in the Innerwear segment was 37.6% in the nine month period in 2007 compared to 37.5% in the same nine month period in 2006. While our gross profit percentage slightly improved, our gross profit was lower from lower sales volume and unfavorable plant performance of \$12 million, \$10 million in higher cotton costs, higher excess and obsolete inventory costs of \$10 million and unfavorable product sales mix of \$9 million. These higher expenses were partially offset by lower duty costs of \$16 million primarily due to the receipt of \$7 million in duty refunds relating to duties paid several years ago, lower allocations of overhead costs of \$15 million and \$6 million in savings from our cost reduction initiatives.

The lower Innerwear segment operating profit in the nine month period in 2007 compared to the same nine month period in 2006 is primarily attributable to lower gross profit on lower sales volume and a higher allocation of selling, general and administrative expenses of \$28 million. These higher expenses were partially offset by lower media, advertising and promotion expenses of \$15 million. Our consolidated selling, general and administrative expenses before segment allocations were lower in the nine month period in 2007 compared to the same nine month period in 2006 primarily due to lower spin off and related charges, lower media, advertising and promotion expenses, lower distribution expenses, amortization of gain on curtailment of postretirement benefits and lower pension expense offset by lower allocations of overhead costs, higher accelerated depreciation and higher technology consulting expenses.

**Outerwear**

|                          | <b>Nine Months Ended</b>      |                               |                           |                           |
|--------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                          | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                          | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                | \$ 896,583                    | \$ 856,129                    | \$ 40,454                 | 4.7%                      |
| Segment operating profit | 54,453                        | 61,281                        | (6,828)                   | (11.1)                    |

Net sales in the Outerwear segment were higher by \$40 million in the nine month period in 2007 compared to the same nine month period in 2006 primarily as a result of higher *Champion* brand activewear and *Hanes* brand retail casualwear net sales. *Champion*, our second largest brand, benefited from higher penetration in the mid-tier department store and sporting goods channels. Overall retail casualwear and activewear net sales were higher by \$46 million and \$34 million, respectively, in the nine month period in 2007 compared to the same nine month period in 2006. The higher net sales were partially offset by lower net sales in our casualwear business as a result of lower sales of promotional t-shirts sold primarily through our embellishment channel of \$40 million.

As a percent of segment net sales, gross profit percentage in the Outerwear segment was 21.7% in the nine month period in 2007 compared to 19.9% in the same nine month period in 2006. The improvement in gross profit is primarily attributable to savings from our cost reduction initiatives and prior restructuring actions of \$15 million, improved plant performance of \$15 million, favorable product sales mix of \$7 million and lower allocations of overhead costs of \$7 million offset primarily by higher cotton costs of \$12 million, higher excess and obsolete inventory costs of \$5 million and higher duty costs of \$4 million.

The lower Outerwear segment operating profit in the nine month period in 2007 compared to the same nine month period in 2006 is primarily attributable to a higher gross profit which was more than offset by higher media,

advertising and promotion expenses of \$4 million and a higher allocation of selling, general and administrative expenses of \$27 million. Our consolidated selling, general and administrative expenses before segment allocations were lower in the nine month period in 2007 compared to the same nine month period in 2006 primarily due to lower spin off and related charges, lower media, advertising and promotion expenses, lower distribution expenses, amortization of gain on curtailment of postretirement benefits and lower pension

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expense offset by lower allocations of overhead costs, higher accelerated depreciation and higher technology consulting expenses.

**Hosiery**

|                          | <b>Nine Months Ended</b>      |                               |                           |                           |
|--------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                          | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                          | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                | \$ 189,215                    | \$ 190,894                    | \$ (1,679)                | (0.9)%                    |
| Segment operating profit | 52,849                        | 22,666                        | 30,183                    | 133.2                     |

Net sales in the Hosiery segment were slightly lower by \$2 million in the nine month period in 2007 compared to the same nine month period in 2006 primarily due to lower sales of the *L eggs* brand to mass retailers and food and drug stores.

As a percent of segment net sales, gross profit percentage was 46.7% in the nine month period in 2007 compared to 38.9% in the same nine month period in 2006 primarily due improved plant performance of \$8 million and \$4 million in savings from our cost reduction initiatives and prior restructuring actions.

Hosiery segment operating profit was higher in the nine month period in 2007 compared to the same nine month period in 2006 primarily due to a higher gross profit, \$8 million in lower media, advertising and promotion expenses and \$10 million in lower allocated selling, general and administrative expenses and the improvement in gross profit. Our consolidated selling, general and administrative expenses before segment allocations were lower in the nine month period in 2007 compared to the same nine month period in 2006 primarily due to lower spin off and related charges, lower media, advertising and promotion expenses, lower distribution expenses, amortization of gain on curtailment of postretirement benefits and lower pension expense offset by lower allocations of overhead costs, higher accelerated depreciation and higher technology consulting expenses.

**International**

|                          | <b>Nine Months Ended</b>      |                               |                           |                           |
|--------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                          | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                          | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                | \$ 303,119                    | \$ 295,564                    | \$ 7,555                  | 2.6%                      |
| Segment operating profit | 34,321                        | 28,438                        | 5,883                     | 20.7                      |

Overall net sales in the International segment were higher in the nine month period in 2007 compared to the same nine month period in 2006. During the nine month period in 2007 we experienced higher net sales in Europe of \$14 million and higher net sales of \$2 million in our emerging markets in Asia which were partially offset by lower sales in Canada of \$9 million. The growth in our European casualwear business was primarily driven by the strength of the *Stedman* and *Hanes* brands that are sold in the screen print channel. Changes in foreign currency exchange rates had a favorable impact on net sales of \$7 million in the nine month period in 2007 compared to the same nine month period in 2006.

As a percent of segment net sales, gross profit percentage was 41.1% in the nine month period in 2007 and the same nine month period in 2006.

The higher International segment operating profit in the nine month period in 2007 compared to the same nine month period in 2006 is primarily attributable to the higher gross profit from higher sales volume. Changes in foreign currency exchange rates had a favorable impact on segment operating profit of \$1 million in the nine month period in 2007 compared to the same nine month period in 2006.

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

|                          | <b>Nine Months Ended</b>      |                               |                           |                           |
|--------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|
|                          | <b>September 29,<br/>2007</b> | <b>September 30,<br/>2006</b> | <b>Higher<br/>(Lower)</b> | <b>Percent<br/>Change</b> |
|                          | <b>(dollars in thousands)</b> |                               |                           |                           |
| Net sales                | \$ 46,629                     | \$ 36,085                     | \$ 10,544                 | 29.2%                     |
| Segment operating profit | (17)                          | (505)                         | 488                       | 96.6                      |

The higher net sales from our Other segment primarily resulted from an immaterial change in the way we recognized sales to third party suppliers in the same nine month period in 2006. The full year change was reflected in the same nine month period in 2006 with a \$5 million impact on net sales and minimal impact on segment operating profit. Net sales of this segment are generated for the purpose of maintaining asset utilization at certain manufacturing facilities.

***General Corporate Expenses***

General corporate expenses were lower in the nine month period in 2007 compared to the same nine month period in 2006 primarily due to lower spin off and related charges of \$36 million, amortization of gain on postretirement benefits of \$6 million, a \$5 million favorable adjustment related to the final separation of our pension plan assets and liabilities from those of Sara Lee and \$3 million in lower expenses related to various areas. These lower expenses were partially offset by higher stand alone expenses associated with being an independent company of \$11 million.

**Liquidity and Capital Resources*****Trends and Uncertainties Affecting Liquidity***

Our primary sources of liquidity are our cash flows from operating activities and availability under our revolving loan facility described below. The following has or is expected to negatively impact our liquidity:

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

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

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

we 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 significantly increase our income tax expense; and

we expect to repurchase up to 10 million shares of our stock in the open market over the next few years, 1.6 million of which we have repurchased as of September 29, 2007.

We believe that our cash provided from operating activities, together with our available credit capacity, will enable us to comply with the terms of our indebtedness and meet presently foreseeable financial requirements.

We expect to continue the restructuring efforts that we have undertaken since the spin off from Sara Lee. For example, during the nine months ended September 29, 2007, in furtherance of our efforts to execute our consolidation and globalization strategy, we approved actions that will result in the closure of 14 manufacturing facilities and two

distribution centers. The implementation of these efforts, which are designed to improve operating efficiencies and lower costs, has resulted and is likely to continue to result in significant costs. As further plans are developed and approved by management and our board of directors, we expect to recognize additional restructuring costs to eliminate duplicative functions within the organization and transition a significant portion of our manufacturing capacity to lower-cost locations in other countries. As a result of these efforts, we expect to incur approximately \$250 million in restructuring and related charges over the three year period following the spin off from Sara Lee approximately half of which is expected to be noncash. As of September 29, 2007, we have recognized approximately \$109 million in restructuring and related charges

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related to these efforts. 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.

As we continue to add new manufacturing capacity in Central America, the Caribbean Basin and Asia, our exposure to events that could disrupt our foreign supply chain, including political instability, acts of war or terrorism or other international events resulting in the disruption of trade, disruptions in shipping and freight forwarding services, increases in oil prices (which would increase the cost of shipping), interruptions in the availability of basic services and infrastructure and fluctuations in foreign currency exchange rates, is increased. Disruptions in our foreign supply chain could negatively impact our liquidity by interrupting production in offshore facilities, increasing our cost of sales, disrupting merchandise deliveries, delaying receipt of the products into the United States or preventing us from sourcing our products at all. Depending on timing, these events could also result in lost sales, cancellation charges or excessive markdowns. For a discussion of these and other risk factors facing our business, see the risk factors section of our Report on Form 10-KT for the six months ended December 30, 2006 and Risk Factors in this Quarterly Report on Form 10-Q.

As a result of provisions of the Pension Protection Act of 2006, we are required, commencing with plan years beginning after 2007, to make larger contributions to our pension plans than Sara Lee made with respect to these plans in past years. The final separation of our pension plan assets and liabilities from those of Sara Lee which will result in a higher total amount of pension assets being transferred to us than was originally estimated prior to the spin off, together with our contributions of \$48 million in December 2006, \$42 million in March 2007 and \$6 million in September 2007 to our pension plans, has resulted in our qualified pension plans currently being approximately 97% funded which should result in minimal pension funding requirements in the future. We have met our minimum funding requirements for 2007.

***Net Cash Provided by Operating Activities***

Net cash provided by operating activities was \$236 million in the nine month period in 2007 compared to \$201 million in the same nine month period in 2006. The higher cash provided from operating activities of \$35 million was primarily the result of better management of working capital, which reflects \$48 million in pension contributions, partially offset by lower earnings in the business primarily attributable to higher interest expense, a higher effective income tax rate and higher restructuring and related charges.

***Net Cash Used in Investing Activities***

Net cash used in investing activities was \$50 million in the nine month period in 2007 compared to \$76 million in the same nine month period in 2006. The lower cash used in investing activities of \$26 million was primarily the result of lower purchases of property and equipment and higher cash received from sales of property and equipment relating to our restructuring actions partially offset by the cash portion of the cost of acquiring of the textile manufacturing operations of Industrias Duraflex, S.A. de C.V. in El Salvador. While capital spending can vary from quarter to quarter, we anticipate that over the long term our capital expenditures will be approximately level with our annual depreciation of \$110 million.

***Net Cash Used in Financing Activities***

Net cash used in financing activities was \$168 million in the nine month period in 2007 compared to \$428 million in the same nine month period in 2006. The lower cash used in financing activities of \$260 million was primarily the result of the elimination of net transactions with parent companies and related entities subsequent to the spin off from Sara Lee and lower net borrowings and repayments on notes payable to banks in the nine month period in 2007, partially offset by an increase in repayments of debt under credit facilities and share repurchases in the nine month



period in 2007.

During the nine month period in 2007, we repaid \$128 million of long-term debt, of which \$125 million was a prepayment. In addition, we repurchased \$44 million of company stock pursuant to a program approved by the Board of Directors in January 2007 which authorizes repurchase of up to 10 million shares of our common stock.

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

As of September 29, 2007 and December 30, 2006, cash and cash equivalents were \$176 million and \$156 million, respectively. The higher cash and cash equivalents as of September 29, 2007 was primarily the result of better management of working capital and the elimination of net transactions with parent companies and related entities subsequent to the spin off from Sara Lee, partially offset by lower net income and the repayment of debt under credit facilities in 2007.

### ***Revolving Loan Facility***

We have significant liquidity based on our availability under the Revolving Loan Facility provided under the senior secured credit facility that we entered into in September 2006. As of September 29, 2007, \$69 million of standby and trade letters of credit were issued under this facility and \$431 million was available for borrowings.

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

We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial position in conformity with accounting principles generally accepted in the United States. We apply these accounting policies in a consistent manner. Our significant accounting policies are discussed in Note 2, titled Summary of Significant Accounting Policies, to our Combined and Consolidated Financial Statements included in our Report on Form 10-KT for the six months ended December 30, 2006.

The application of these 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 accounting policies that involve the most significant management judgments and estimates used in preparation of our consolidated financial statements, or are the most sensitive to change from outside factors, are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Report on Form 10-KT for the six months ended December 30, 2006. There have been no material changes during the nine months ended September 29, 2007 in these policies except as follows:

#### ***Goodwill***

During the third quarter of fiscal 2007, we changed the timing of our annual goodwill impairment testing to the first day of the third fiscal quarter. Prior to fiscal 2007, our policy was to perform the test at the end of the second fiscal quarter which coincided with Sara Lee's policy before the spin off. The change in the annual goodwill impairment testing date was made following the change in our fiscal year-end from the Saturday closest to June 30 to the Saturday closest to December 31 and results in the testing continuing to be performed in the middle of our fiscal year. In addition, this accounting change better aligns the annual goodwill impairment test with the timing of our annual long range planning cycle. The change in accounting principle does not delay, accelerate or avoid an impairment charge. Accordingly, we believe that the accounting change described above is preferable under the circumstances.

#### ***Income Taxes***

In July 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), which became effective during the first quarter ended March 31, 2007. FIN 48 addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the

financial statements. Under FIN 48, 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

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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. The impact of the reassessment of our tax positions in accordance with FIN 48 did not have a material impact on our results of operations, financial condition or liquidity.

For additional information regarding the adoption of FIN 48, see Note 5, Income Taxes. For further discussion of our critical accounting estimates related to income taxes, see our Report on Form 10-KT for the six months ended December 30, 2006.

## **Issued But Not Yet Effective Accounting Standards**

### ***Fair Value Measurements***

The FASB has issued Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements, or SFAS 157, which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for more information about (1) the extent to which companies measure assets and liabilities at fair value, (2) the information used to measure fair value, and (3) the effect that fair-value measurements have on earnings. SFAS 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact, if any, of SFAS 157 on our results of operations and financial position.

### ***Pension and Other Postretirement Benefits***

In September 2006, the FASB issued SFAS No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R), or SFAS 158. SFAS 158 requires an employer to recognize in its statement of financial position an asset for a plan's overfunded status, or a liability for a plan's underfunded status, measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions), and recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in accumulated other comprehensive loss and as a separate component of stockholders' equity. We adopted the provision to recognize the funded status of a benefit plan and the disclosure requirements during the six months ended December 30, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end is effective for fiscal years ending after December 15, 2008. We plan to adopt the measurement date provision in fiscal 2007.

### ***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 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 become effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that SFAS 159 will have on our results of operations and financial position.

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

There have been no significant changes in our market risk exposures from those described in Item 7A of our Report on Form 10-KT for the six months ended December 30, 2006.

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

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

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

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

Not applicable.

**PART II**

**Item 1. *Legal Proceedings***

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

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

Our Report on Form 10-KT for the six months ended December 30, 2006 includes a risk factor that described risks associated with the fact that we assumed pension obligations from Sara Lee that were \$225 million more than the corresponding pension assets, which resulted in our pension plans being underfunded. The risk factor described the risks that we could be required by law to make larger contributions to our pension plans than Sara Lee made with respect to these plans in past years and that we could be required to make contributions to the pension plans in excess of our expectations at the time. Finally, the risk factor indicated that a significant increase in our funding obligations could have a negative impact on our cash flows, liquidity and results of operations.

During the quarter ended September 29, 2007, we substantially completed the separation of our pension plan assets and liabilities from those of Sara Lee, which will result in a higher total amount of pension assets being transferred to us than was originally estimated prior to the spin off. In addition, we contributed \$48 million in December 2006, \$42 million in March 2007 and \$6 million in September 2007 to our pension plans. As a result of these actions, our qualified pension plans currently are approximately 97% funded, and thus we believe that the risks described above are not currently among the most significant risks associated with our business. This assessment is based on current information, and may change if financial conditions change or if the assumptions we have used to calculate our pension costs and obligations turn out to be inaccurate. If either of these possibilities occur, we could be required to make contributions to the pension plans in excess of our current expectations for future years. In addition, we may be required to make larger contributions to our pension plans than Sara Lee made with respect to these plans in past years. As disclosed previously, any such significant increase in our funding obligations could have a negative impact on our cash flows, liquidity and results of operations.



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

The following table provides information about purchases by Hanesbrands during the third quarter ended September 29, 2007 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

**Issuer Purchases of Equity Securities**

| <b>Period</b>     | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</b> | <b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)</b> |
|-------------------|---|-------------------------------------|--|--|
| 07/01/07 08/04/07 |   |                                     |  | 9,394,600  |
| 08/05/07 09/01/07 | 812,000                                 | 28.22                               | 812,000  | 8,582,600  |
| 09/02/07 09/29/07 | 195,594                                 | 28.88                               | 195,594  | 8,387,006  |
| <b>Total</b>      | <b>1,007,594</b>                        | <b>\$ 28.35</b>                     | <b>1,007,594</b>   | <b>8,387,006</b>   |

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

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

None.

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

No matters were submitted to a vote of stockholders during the third quarter ended September 29, 2007.

**Item 5. *Other Information***

None.

**Item 6. *Exhibits***



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

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HANESBRANDS INC.

By: /s/ E. Lee Wyatt Jr.

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

Date: November 5, 2007

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

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 3.1                       | Articles of Amendment and Restatement of Hanesbrands Inc. (incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).  |
| 3.2                       | Articles Supplementary (Junior Participating Preferred Stock, Series A) (incorporated by reference from Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 5, 2006).  |
| 3.3                       | Amended and Restated Bylaws of Hanesbrands Inc. (incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 27, 2007).   |
| 3.4                       | Certificate of Formation of BA International, L.L.C. (incorporated by reference from Exhibit 3.4 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.5                       | Limited Liability Company Agreement of BA International, L.L.C. (incorporated by reference from Exhibit 3.5 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.6                       | Certificate of Incorporation of Caribesock, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.6 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.7                       | Bylaws of Caribesock, Inc. (incorporated by reference from Exhibit 3.7 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.8                       | Certificate of Incorporation of Caribetex, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.8 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).    |
| 3.9                       | Bylaws of Caribetex, Inc. (incorporated by reference from Exhibit 3.9 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.10                      | Certificate of Formation of CASA International, LLC (incorporated by reference from Exhibit 3.10 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.11                      | Limited Liability Company Agreement of CASA International, LLC (incorporated by reference from Exhibit 3.11 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.12                      | Certificate of Incorporation of Ceibena Del, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.12 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007). |
| 3.13                      | Bylaws of Ceibena Del, Inc. (incorporated by reference from Exhibit 3.13 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |

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- 3.14 Certificate of Formation of Hanes Menswear, LLC, together with Certificate of Conversion from a Corporation to a Limited Liability Company Pursuant to Section 18-214 of the Limited Liability Company Act and Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.14 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).

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| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 3.15                      | Limited Liability Company Agreement of Hanes Menswear, LLC (incorporated by reference from Exhibit 3.15 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.16                      | Certificate of Incorporation of HPR, Inc., together with Certificate of Merger of Hanes Puerto Rico, Inc. into HPR, Inc. (now known as Hanes Puerto Rico, Inc.) (incorporated by reference from Exhibit 3.16 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.17                      | Bylaws of Hanes Puerto Rico, Inc. (incorporated by reference from Exhibit 3.17 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.18                      | Articles of Organization of Sara Lee Direct, LLC, together with Articles of Amendment reflecting the change of the entity's name to Hanesbrands Direct, LLC (incorporated by reference from Exhibit 3.18 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.19                      | Limited Liability Company Agreement of Sara Lee Direct, LLC (now known as Hanesbrands Direct, LLC) (incorporated by reference from Exhibit 3.19 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.20                      | Certificate of Incorporation of Sara Lee Distribution, Inc., together with Certificate of Amendment of Certificate of Incorporation of Sara Lee Distribution, Inc. reflecting the change of the entity's name to Hanesbrands Distribution, Inc. (incorporated by reference from Exhibit 3.20 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007). |
| 3.21                      | Bylaws of Sara Lee Distribution, Inc. (now known as Hanesbrands Distribution, Inc.) (incorporated by reference from Exhibit 3.21 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.22                      | Certificate of Formation of HBI Branded Apparel Enterprises, LLC (incorporated by reference from Exhibit 3.22 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.23                      | Operating Agreement of HBI Branded Apparel Enterprises, LLC (incorporated by reference from Exhibit 3.23 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.24                      | Certificate of Incorporation of HBI Branded Apparel Limited, Inc. (incorporated by reference from Exhibit 3.24 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.25                      | Bylaws of HBI Branded Apparel Limited, Inc. (incorporated by reference from Exhibit 3.25 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.26                      | Certificate of Formation of Hbi International, LLC (incorporated by reference from Exhibit 3.26 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.27                      | Limited Liability Company Agreement of Hbi International, LLC (incorporated by reference from Exhibit 3.27 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.28                      |   |

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Certificate of Formation of SL Sourcing, LLC, together with Certificate of Amendment to the Certificate of Formation of SL Sourcing, LLC reflecting the change of the entity's name to HBI Sourcing, LLC (incorporated by reference from Exhibit 3.28 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).

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| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 3.29                      | Limited Liability Company Agreement of SL Sourcing, LLC (now known as HBI Sourcing, LLC) (incorporated by reference from Exhibit 3.29 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.30                      | Certificate of Formation of Inner Self LLC (incorporated by reference from Exhibit 3.30 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.31                      | Limited Liability Company Agreement of Inner Self LLC (incorporated by reference from Exhibit 3.31 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.32                      | Certificate of Formation of Jasper-Costa Rica, L.L.C. (incorporated by reference from Exhibit 3.32 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.33                      | Amended and Restated Limited Liability Company Agreement of Jasper-Costa Rica, L.L.C.(incorporated by reference from Exhibit 3.33 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).   |
| 3.34                      | Certificate of Formation of United States Knitting, L.L.C., together with Certificate of Amendment reflecting the change of the entity's name to National Textiles, L.L.C. and subsequent Certificate of Amendment (incorporated by reference from Exhibit 3.34 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                      | Fourth Amended and Restated Limited Liability Company Agreement of National Textiles, L.L.C.(incorporated by reference from Exhibit 3.35 to Amendment No. 1 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on May 7, 2007).  |
| 3.36                      | 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).         |
| 3.37                      | 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).   |
| 3.38                      | 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).   |
| 3.39                      | 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).   |
| 3.40                      | 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).      |
| 3.41                      |  |

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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).

- 3.42 Certificate of Incorporation of UPCR, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.42 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).

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| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 3.43                      | Bylaws of UPCR, Inc. (incorporated by reference from Exhibit 3.43 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007).  |
| 3.44                      | Certificate of Incorporation of UPEL, Inc., together with Certificate of Change of Location of Registered Office and Registered Agent (incorporated by reference from Exhibit 3.44 to the Registrant's Registration Statement on Form S-4 (Commission file number 333-142371) filed with the Securities and Exchange Commission on April 26, 2007). |
| 3.45                      | 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).  |
| 18.1                      | Letter regarding change in accounting principles  |
| 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.  |