Hanesbrands Inc.
Form 10-K
February 09, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-K**

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

**For the fiscal year ended January 2, 2010**

**or**

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

**For the transition period from to**

**Commission file number: 001-32891**

**Hanesbrands Inc.**

(Exact name of registrant as specified in its charter)

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

**(336) 519-8080**

*(Registrant s telephone number including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**
**Common Stock, par value $0.01 per share and related**
**Preferred Stock Purchase Rights**
**Name of each exchange on which registered:**
**New York Stock Exchange**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes o No þ

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 þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

As of July 2, 2009, the aggregate market value of the registrant s common stock held by non-affiliates was approximately $1,387,889,493 (based on the closing price of the common stock of $14.72 per share on that date, as reported on the New York Stock Exchange and, for purposes of this computation only, the assumption that all of the registrant s directors and executive officers are affiliates and that beneficial holders of 5% or more of the outstanding common stock are not affiliates).

As of February 1, 2010, there were 95,399,708 shares of the registrant s common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Form 10-K incorporates by reference to portions of the registrant s proxy statement for its 2010 annual meeting of stockholders.

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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 Annual Report on Form 10-K include the *Hanes*, *Champion*, *C9 by Champion*, *Playtex*, *Bali*, *L eggs*, *Just My Size*, *barely there*, *Wonderbra*, *Stedman*, *Outer Banks*, *Zorba*, *Rinbros* and *Duofold* 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 Annual Report on Form 10-K.

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act ). 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, co expressions. In particular, information appearing under Business, Risk Factors and 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. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- our ability to successfully manage social, political, economic, legal and other conditions affecting our supply chain, such as disruption of markets, changes in import and export laws, currency restrictions and currency exchange rate fluctuations;
- the impact of dramatic changes in the volatile market price of cotton and increases in prices of other materials used in our products;
- the impact of natural disasters;
- the impact of increases in prices of oil-related materials and other costs such as energy and utility costs;
- our ability to effectively manage our inventory and reduce inventory reserves;
- our ability to continue to effectively distribute our products through our distribution network as we continue to consolidate our distribution network;
- our ability to optimize our global supply chain;
- current economic conditions;
- consumer spending levels;
- the risk of inflation or deflation;
- financial difficulties experienced by, or loss of or reduction in sales to, any of our top customers or groups of customers;
- gains and losses in the shelf space that our customers devote to our products;
- the highly competitive and evolving nature of the industry in which we compete;
- our ability to keep pace with changing consumer preferences;
- our debt and debt service requirements that restrict our operating and financial flexibility and impose interest and financing costs;

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- the financial ratios that our debt instruments require us to maintain;
- future financial performance, including availability, terms and deployment of capital;
- our ability to comply with environmental and occupational health and safety laws and regulations;
- costs and adverse publicity from violations of labor or environmental laws by us or our suppliers;
- our ability to attract and retain key personnel;
- new litigation or developments in existing litigation; and
- possible terrorist attacks and ongoing military action in the Middle East and other parts of the world.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking statements. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. You should carefully read the factors described in the Risk Factors section of this Annual Report on Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from these forward-looking statements.

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

## WHERE YOU CAN FIND MORE INFORMATION

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

We make available free of charge at www.hanesbrands.com (in the Investors section) copies of materials we file with, or furnish to, the SEC. By referring to our Web site, www.hanesbrands.com, we do not incorporate our Web site or its contents into this Annual Report on Form 10-K.

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# PART I

## Item 1. *Business*

We are a consumer goods company with a portfolio of leading apparel brands, including *Hanes, Champion, Playtex, Bali, L eggs, Just My Size, barely there*, *Wonderbra, Stedman, Outer Banks, Zorba, Rinbros* and *Duofold.* We design, manufacture, source and sell a broad range of apparel essentials such as T-shirts, bras, panties, men s underwear, kids underwear, casualwear, activewear, socks and hosiery.

The apparel essentials sector of the apparel industry is characterized by frequently replenished items, such as T-shirts, bras, panties, men s underwear, kids underwear, socks and hosiery. Growth and sales in the apparel essentials sector are not primarily driven by fashion, in contrast to other areas of the broader apparel industry. We focus on the core attributes of comfort, fit and value, while remaining current with regard to consumer trends. The majority of our core styles continue from year to year, with variations only in color, fabric or design details. Some products, however, such as intimate apparel, activewear and sheer hosiery, do have an emphasis on style and innovation. We continue to invest in our largest and strongest brands to achieve our long-term growth goals. In addition to designing and marketing apparel essentials, we have a long history of operating a global supply chain that incorporates a mix of self-manufacturing, third-party contractors and third-party sourcing.

Our fiscal year ends on the Saturday closest to December 31 and, until it was changed during 2006, ended on the Saturday closest to June 30. All references to 2009 , 2008 and 2007 relate to the 52 week fiscal year ended on January 2, 2010, the 53 week fiscal year ended on January 3, 2009 and the 52 week fiscal year ended on December 29, 2007, respectively.

During the fourth quarter of 2009, as we sought to drive more outerwear sales through our retail operations by expanding our *Hanes* and *Champion* offerings, we made the decision to change our internal organizational structure so that our retail operations, previously included in our Innerwear segment, would be a separate Direct to Consumer segment. As a result, our operations are managed and reported in six operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Hosiery, Direct to Consumer, International and Other. Certain other insignificant changes between segments have been reflected in the segment disclosures to conform to the current organizational structure. The following table summarizes our operating segments by category:

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| Segment | Primary Products | Primary Brands |
|---|---|---|
| Innerwear | Intimate apparel, such as bras, panties and shapewear | *Hanes, Playtex, Bali, barely there, Just My Size, Wonderbra* |
| | Men s underwear and kids underwear | *Hanes, Polo Ralph Lauren** |
| | Socks | *Hanes, Champion* |
| Outerwear | Activewear, such as performance T-shirts and shorts, fleece, sports bras and thermals | *Champion, Duofold* |
| | Casualwear, such as T-shirts, fleece and sport shirts | *Hanes, Just My Size, Outer Banks, Champion, Hanes Beefy-T* |
| Hosiery | Hosiery | *L eggs, Hanes, Donna Karan,* DKNY,* Just My Size* |
| Direct to Consumer | Activewear, men s underwear, kids underwear, intimate apparel, socks, hosiery and casualwear | *Bali, Hanes, Playtex, Champion, barely there, L eggs, Just My Size* |
| International | Activewear, men s underwear, kids underwear, intimate apparel, socks, hosiery and casualwear | *Hanes, Champion, Wonderbra,** Playtex,** Stedman, Zorba, Rinbros, Kendall,* Sol y Oro, Bali, Ritmo,* |
| Other | Nonfinished products, primarily yarn | Not applicable |

* Brand used under a license agreement.

** As a result of the February 2006 sale of the European branded apparel business of Sara Lee Corporation, or Sara Lee, we are not permitted to sell this brand in the member states of the European Union, or the EU, several other European countries and South Africa.

Our brands have a strong heritage in the apparel essentials industry. According to The NPD Group/Consumer Tracking Service, or NPD, our brands hold either the number one or number two U.S. market position by sales value in most product categories in which we compete, for the 12 month period ended December 31, 2009. In 2009, *Hanes* was number one for the sixth consecutive year as the most preferred men s apparel brand, women s intimate apparel brand and children s apparel brand of consumers in Retailing Today magazine s Top Brands Study. Additionally, we had five of the top ten intimate apparel brands preferred by consumers in the Retailing Today study *Hanes, Playtex, Bali, Just My Size* and *L eggs*. In 2008, the most recent year in which the survey was conducted, *Hanes* was number one for the fifth consecutive year on the Women s Wear Daily Top 100 Brands Survey for apparel and accessory brands that women know best.

Our products are sold through multiple distribution channels. During 2009, approximately 45% of our net sales were to mass merchants in the United States, 16% were to national chains and department stores in the United States, 11% were in our International segment, 10% were in our Direct to Consumer segment in the United States, and 18% were to other retail channels in the United States such as embellishers, specialty retailers and sporting goods stores. We have strong, long-term relationships with our top customers, including relationships of more than ten years with each of our top ten customers. The size and operational scale of the high-volume retailers with which we do business require extensive category and product knowledge and specialized services regarding the quantity, quality and planning of product orders. We have organized multifunctional customer management teams, which has allowed us to form strategic long-term relationships with these customers and efficiently focus resources on category, product and service expertise. We also have customer-specific programs such as the *C9 by Champion* products marketed and sold through Target stores and the recently expanded presence at Wal-Mart stores of our *Just My Size* brand.

Our ability to react to changing customer needs and industry trends is key to our success. Our design, research and product development teams, in partnership with our marketing teams, drive our efforts to bring innovations to market. We seek to leverage our insights into consumer demand in the apparel essentials industry to develop new products within our existing lines and to modify our existing core products in ways that make them more appealing, addressing changing customer needs and industry trends. Examples of our recent innovations include:

*Hanes* dyed V-neck underwear T-shirts in black, gray and navy colors (2009).

*Champion* 360° Max Support sports bra that controls movement in all directions, scientifically tested on athletes to deliver 360° support (2009).

*Playtex 18 Hour* Seamless Smoothing bra that features fused fabric to smooth sides and back (2009).

*Bali* Natural Uplift bras that feature advanced lift for the bust without adding size (2009).

*Hanes* No Ride Up panties, specially designed for a better fit that helps women stay wedgie-free (2008).

*Hanes* Lay Flat Collar T-shirts and *Hanes* No Ride Up boxer briefs, the brand s latest innovation in product comfort and fit (2008).

*Playtex 18 Hour* Active Lifestyle bra that features active styling with wickable fabric (2008).

*Bali Concealers* bras, with revolutionary concealing petals for complete modesty (2008).

*Hanes* Concealing Petals bras (2008).

*Hanes Comfortsoft* T-shirt (2007).

*Hanes* All Over Comfort bras (2007).

*Bali Passion for Comfort* bras, designed to be the ultimate comfort bra, features a silky smooth lining for a luxurious feel against the body (2007).

We have restructured our supply chain over the past three years to create more efficient production clusters that utilize fewer, larger facilities and to balance our production capability between the Western Hemisphere and Asia. We have closed plant locations, reduced our workforce and relocated some of our manufacturing capacity to lower cost locations in Asia, Central America and the Caribbean Basin. With our global supply chain infrastructure substantially in place, we are now focused on optimizing our supply chain to further enhance efficiency, improve working capital and asset turns and reduce costs. We are focused on optimizing the working capital needs of our supply chain through several initiatives, such as supplier-managed inventory for raw materials and sourced goods ownership relationships. We completed the construction of a textile production plant in Nanjing, China which is our first company-owned textile facility in Asia. Production commenced in the fourth quarter of 2009 and we expect to ramp up production over the next 18 months. The Nanjing facility, along with our other textile facilities and arrangements with outside contractors, enables us to expand and leverage our production scale as we balance our supply chain across hemispheres to support our production capacity. The consolidation of our distribution network is still in process but will not result in any substantial charges in future periods. The distribution network consolidation involves the implementation of new warehouse management systems and technology, and opening of new distribution centers and new third-party logistics providers to replace parts of our legacy distribution network.

## Our Brands

Our portfolio of leading brands is designed to address the needs and wants of various consumer segments across a broad range of apparel essentials products. Each of our brands has a particular consumer positioning that distinguishes it from its competitors and guides its advertising and product development. We discuss some of our most important brands in more detail below.

*Hanes* is the largest and most widely recognized brand in our portfolio. In 2009, *Hanes* was number one for the sixth consecutive year as the most preferred men s apparel brand, women s intimate apparel brand and children s apparel brand of consumers in Retailing Today magazine s Top Brands Study. In 2008, the most recent year the survey was conducted, *Hanes* was number one for the fifth consecutive year on the Women s Wear Daily Top 100 Brands Survey for apparel and accessory brands that women know best. The *Hanes* brand covers all of our product categories, including men s underwear, kids underwear, bras, panties, socks, T-shirts, fleece and sheer hosiery.

*Hanes* stands for outstanding comfort, style and value. According to Millward Brown Market Research, *Hanes* is found in 85% of the U.S. households that have purchased men s or women s casual clothing or underwear in the 12-month period ended December 31, 2009.

*Champion* is our second-largest brand. Specializing in athletic and other performance apparel, the *Champion* brand is designed for everyday athletes. We believe that *Champion* s combination of comfort, fit and style provides athletes with mobility, durability and up-to-date styles, all product qualities that are important in the sale of athletic products. We also distribute *C9 by Champion* products exclusively through Target stores.

*Playtex*, the third-largest brand within our portfolio, offers a line of bras, panties and shapewear, including products that offer solutions for hard to fit figures. *Bali* is the fourth-largest brand within our portfolio. *Bali* offers a range of bras, panties and shapewear sold in the department store channel. Our brand portfolio also includes the following well-known brands: *L eggs*, *Just My Size*, *barely there*, *Wonderbra*, *Outer Banks* and *Duofold.* We entered into an agreement with Wal-Mart in April 2009 that significantly expanded the presence of our *Just My Size* brand. These brands serve to round out our product offerings, allowing us to give consumers a variety of options to meet their diverse needs.

## Our Segments

During the fourth quarter of 2009, as we sought to drive more outerwear sales through our retail operations by expanding our *Hanes* and *Champion* offerings, we made the decision to change our internal organizational structure so that our retail operations, previously included in our Innerwear segment, would be a separate Direct to Consumer segment. As a result, our operations are managed and reported in six operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Hosiery, Direct to Consumer, International and Other. Certain other insignificant changes between segments have been reflected in the segment disclosures to conform to the current organizational structure. These segments are organized principally by product category, geographic location and distribution channel. Management of each segment is responsible for the operations of these segments businesses but shares a common supply chain and media and marketing platforms. For more information about our segments, see Note 20 to our financial statements included in this Annual Report on Form 10-K.

### *Innerwear*

The Innerwear segment focuses on core apparel essentials, and consists of products such as women s intimate apparel, men s underwear, kids underwear, and socks, marketed under well-known brands that are trusted by consumers. We are an intimate apparel category leader in the United States with our *Hanes*, *Playtex*, *Bali*, *barely there*, *Just My Size* and *Wonderbra* brands. We are also a leading manufacturer and marketer of men s underwear and kids underwear under the *Hanes* and *Polo Ralph Lauren* brand names. During 2009, net sales from our Innerwear segment were $1.8 billion, representing approximately 47% of total net sales.

### *Outerwear*

We are a leader in the casualwear and activewear markets through our *Hanes*, *Champion* , *Just My Size* and *Duofold* brands, where we offer products such as T-shirts and fleece. Our casualwear lines offer a range of quality, comfortable clothing for men, women and children marketed under the *Hanes* and *Just My Size* brands. The *Just My Size* brand offers casual apparel designed exclusively to meet the needs of plus-size women. In 2009, we entered into a multi-year agreement to provide a women s casualwear program with our *Just My Size* brand at Wal-Mart stores. In addition to activewear for men and women, *Champion* provides uniforms for athletic programs and includes an apparel program, *C9 by Champion*, at Target stores. We also license our *Champion* name for collegiate apparel and footwear. We also supply our T-shirts, sport shirts and fleece products, including brands such as *Hanes*, *Champion*, *Outer Banks* and *Hanes Beefy-T*, to customers, primarily wholesalers, who then resell to screen printers and embellishers. During 2009, net sales from our Outerwear segment were $1.1 billion, representing approximately 27% of total net sales.

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***Hosiery***

We are the leading marketer of women s sheer hosiery in the United States. We compete in the hosiery market by striving to offer superior values and executing integrated marketing activities, as well as focusing on the style of our hosiery products. We market hosiery products under our *L eggs*, *Hanes* and *Just My Size* brands. During 2009, net sales from our Hosiery segment were $186 million, representing approximately 5% of total net sales. We expect the trend of declining hosiery sales to continue consistent with the overall decline in the industry and with shifts in consumer preferences.

***Direct to Consumer***

Our Direct to Consumer operations include our value-based ( outlet ) stores and Internet operations which sell products from our portfolio of leading brands. We sell our branded products directly to consumers through our outlet stores, as well as our Web sites operating under the *Hanes*, *One Hanes Place*, *Just My Size* and *Champion* names. Our Internet operations are supported by our catalogs. As of January 2, 2010 and January 3, 2009, we had 228 and 213 outlet stores, respectively. During 2009, net sales from our Direct to Consumer segment were $370 million, representing approximately 10% of total net sales.

***International***

International includes products that span across the Innerwear, Outerwear and Hosiery reportable segments and are primarily marketed under the *Hanes*, *Champion*, *Wonderbra*, *Playtex*, *Stedman*, *Zorba*, *Rinbros*, *Kendall, Sol y Oro*, *Bali* and *Ritmo* brands. During 2009, net sales from our International segment were $438 million, representing approximately 11% of total net sales and included sales in Latin America, Asia, Canada, Europe and South America. Our largest international markets are Canada, Japan, Mexico, Europe and Brazil, and we also have sales offices in India and China.

***Other***

Our Other segment primarily consists of sales of yarn to third parties in the United States and Latin America that maintain asset utilization at certain manufacturing facilities and are intended to generate approximate break even margins. During 2009, net sales from our Other segment were $13 million, representing less than 1% of total net sales. In October 2009, we completed the sale of our yarn operations as a result of which we ceased making our own yarn and now source all of our yarn requirements from large-scale yarn suppliers. As a result of the sale of our yarn operations we will no longer have net sales in our Other segment in the future.

**Design, Research and Product Development**

At the core of our design, research and product development capabilities is a team of approximately 300 professionals. We have combined our design, research and development teams into an integrated group for all of our product categories. A facility located in Winston-Salem, North Carolina, is the center of our research, technical design and product development efforts. We also employ creative design and product development personnel in our design center in New York City. In 2009, 2008 and 2007, we spent approximately $46 million, $46 million and $45 million, respectively, on design, research and product development, including the development of new and improved products.

**Customers**

In 2009, approximately 89% of our net sales were to customers in the United States and approximately 11% were to customers outside the United States. Domestically, almost 81% of our net sales were wholesale sales to retailers, 11% were direct to consumers and 8% were wholesale sales to third-party embellishers. We have well-established relationships with some of the largest apparel retailers in the world. Our largest customers are Wal-Mart Stores, Inc., or Wal-Mart, Target Corporation, or Target, and Kohl s Corporation, or Kohl s, accounting for 27%, 17% and 7%, respectively, of our total sales in 2009. As is common in the apparel essentials industry, we generally do not have purchase agreements that obligate our customers to purchase our products. However, all of our key customer relationships have been in place for ten years or more. Wal-Mart, Target and Kohl s are our only customers with sales that exceed 10% of any individual segment s sales. In our Innerwear segment, Wal-Mart accounted for 40% of sales, Target accounted for 16% of sales and Kohl s accounted for 12% of sales during 2009. In our Outerwear segment, Target accounted for

34% of sales and Wal-Mart accounted for 19% of sales during 2009. In our Hosiery segment, Wal-Mart accounted for 27% of sales during 2009 and Target accounted for 10% of sales during 2009.

Due to their size and operational scale, high-volume retailers such as Wal-Mart and Target require extensive category and product knowledge and specialized services regarding the quantity, quality and timing of product orders. We have organized multifunctional customer management teams, which has allowed us to form strategic long-term relationships with these customers and efficiently focus resources on category, product and service expertise. Smaller regional customers attracted to our leading brands and quality products also represent an important component of our distribution. Our organizational model provides for an efficient use of resources that delivers a high level of category and channel expertise and services to these customers.

Sales to the mass merchant channel in the United States accounted for approximately 45% of our net sales in 2009. We sell all of our product categories in this channel primarily under our *Hanes*, *Just My Size* and *Playtex* brands. Mass merchants feature high-volume, low-cost sales of basic apparel items along with a diverse variety of consumer goods products, such as grocery and drug products and other hard lines, and are characterized by large retailers, such as Wal-Mart. Wal-Mart, which accounted for approximately 27% of our net sales in 2009, is our largest mass merchant customer.

Sales to the national chains and department stores channel in the United States accounted for approximately 16% of our net sales in 2009. These retailers target a higher-income consumer than mass merchants, focus more of their sales on apparel items rather than other consumer goods such as grocery and drug products, and are characterized by large retailers such as Kohl s, JC Penney Company, Inc. and Sears Holdings Corporation. We sell all of our product categories in this channel. Traditional department stores target higher-income consumers and carry more high-end, fashion conscious products than national chains or mass merchants and tend to operate in higher-income areas and commercial centers. Traditional department stores are characterized by large retailers such as Macy s and Dillard s, Inc. We sell products in our intimate apparel, hosiery and underwear categories through department stores.

Sales in our Direct to Consumer segment in the United States accounted for approximately 10% of our net sales in 2009. We sell our branded products directly to consumers through our 228 outlet stores, as well as our Web sites operating under the *Hanes*, *One Hanes Place*, *Just My Size* and *Champion* names. Our outlet stores are value-based, offering the consumer a savings of 25% to 40% off suggested retail prices, and sell first-quality, excess, post-season, obsolete and slightly imperfect products. Our Web sites, supported by our catalogs, address the growing direct to consumer channel that operates in today s 24/7 retail environment, and we have an active database of approximately four million consumers receiving our catalogs and emails. Our Web sites continue to experience growth as more consumers embrace this retail shopping channel.

Sales in our International segment represented approximately 11% of our net sales in 2009, and included sales in Latin America, Asia, Canada, Europe and South America. Our largest international markets are Canada, Japan, Mexico, Europe and Brazil, and we also have sales offices in India and China. We operate in several locations in Latin America including Mexico, Argentina, Brazil and Central America. From an export business perspective, we use distributors to service customers in the Middle East and Asia, and have a limited presence in Latin America. The brands that are the primary focus of the export business include *Hanes* and *Champion* socks, *Champion* activewear, *Hanes* underwear and *Bali*, *Playtex*, *Wonderbra* and *barely there* intimate apparel. As discussed below under Intellectual Property, we are not permitted to sell Wonderbra and Playtex branded products in the member states of the EU, several other European countries, and South Africa. For more information about our sales on a geographic basis, see Note 21 to our financial statements.

Sales in other channels in the United States represented approximately 18% of our net sales in 2009. We sell T-shirts, golf and sport shirts and fleece sweatshirts to third-party embellishers primarily under our *Hanes*, *Hanes Beefy-T* and *Outer Banks* brands. Sales to third-party embellishers accounted for approximately 7% of our net sales in 2009. We also sell a significant range of our underwear, activewear and socks products under the *Champion* brand to wholesale clubs, such as Costco, and sporting goods stores, such as The Sports Authority, Inc. We sell primarily legwear and underwear products under the *Hanes* and *L eggs* brands to food, drug and variety stores. We sell products that span across our Innerwear, Outerwear and Hosiery segments to the U.S. military for sale to servicemen and servicewomen.

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### Inventory

Effective inventory management is a key component of our future success. Because our customers generally do not purchase our products under long-term supply contracts, but rather on a purchase order basis, effective inventory management requires close coordination with the customer base. Through Kanban, a multi-initiative effort that determines production quantities, and in doing so, facilitates just-in-time production and ordering systems, as well as inventory management, demand prioritization and related initiatives, we seek to ensure that products are available to meet customer demands while effectively managing inventory levels. We also employ various other types of inventory management techniques that include collaborative forecasting and planning, supplier-managed inventory, key event management and various forms of replenishment management processes. Our supplier-managed inventory initiative is intended to shift raw material ownership and management to our suppliers until consumption, freeing up cash and improving response time. We have demand management planners in our customer management group who work closely with customers to develop demand forecasts that are passed to the supply chain. We also have professionals within the customer management group who coordinate daily with our larger customers to help ensure that our customers planned inventory levels are in fact available at their individual retail outlets. Additionally, within our supply chain organization we have dedicated professionals who translate the demand forecast into our inventory strategy and specific production plans. These individuals work closely with our customer management team to balance inventory investment/exposure with customer service targets.

### Seasonality and Other Factors

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

### Marketing

Our strategy is to bring consumer-driven innovation to market in a compelling way. Our approach is to build targeted, effective multimedia advertising and marketing campaigns to increase awareness of our key brands. Driving growth platforms across categories is a major element of our strategy as it enables us to meet key consumer needs and leverage advertising dollars. We believe that the strength of our consumer insights, our distinctive brand propositions and our focus on integrated marketing give us a competitive advantage in the fragmented apparel marketplace.

In 2009, we launched a number of new advertising and marketing initiatives:

- We launched a new television advertising campaign in support of *Hanes* Comfort Fit socks for the family.
- We announced that our *Champion* and *Duofold* brands have partnered with accomplished international mountaineer and motivational speaker Jamie Clarke to lead Expedition Hanesbrands, a Mount Everest expedition in 2010 designed to drive brand awareness and showcase our research and development innovation and textile science leadership.
- In connection with our Expedition Hanesbrands initiative, *Champion* launched a new What s Your Everest marketing campaign and online community to support people in reaching their personal aspirations and goals.

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*Hanes* became the Official Apparel Sponsor of Passionately Pink for the Cure, a fund-raising program created by Susan G. Komen for the Cure that inspires breast cancer advocacy and honors those affected by the disease. *Hanes* also offers a special pink collection of panties, bras, socks and graphic tees, and has created a campaign Web site, www.hanespink.com, that features interactive content to inspire people to make a difference in the breast cancer support community.

*Champion* was selected by US Lacrosse, the sport s national governing body, as the Official Performance Apparel of US Lacrosse and *Champion* has the right to manufacture apparel with the US Lacrosse logo that will be sold to participating teams. In addition to the apparel partnership, the 2010 US Lacrosse National Convention, the largest lacrosse-specific educational and networking opportunity in the country, will be presented by *Champion*.

We also continued some of our existing advertising and marketing initiatives:

We continued our men s underwear advertising featuring Michael Jordan, in support of *Hanes* Lay Flat Collar T-shirts and No Ride Up boxer briefs.

We continued our television advertising featuring Sarah Chalke in another Look Who advertising campaign in support of our *Hanes* No Ride Up panties.

We continued our alliance with The Walt Disney Company by opening Disney Design-a-Tee presented by *Hanes*, an innovative next-generation store for apparel souvenirs at the Walt Disney World Resort in Orlando, Florida, an interactive T-shirt design and printing store that enables Disney guests to enhance their magical Disney experience with a personalized custom-designed *Hanes* T-shirt printed while they wait.

We continued our How You Play national advertising campaign for *Champion* that we launched in 2007. The campaign includes print, out-of-home and online components and is designed to capture the everyday moments of fun and sport in a series of cool and hip lifestyle images.

We continued the Live Beautifully campaign for our *Bali* brand, launched in the Spring of 2007. The print, television and online advertising campaign features *Bali* bras and panties from its *Passion for Comfort*, *Seductive Curves* and *Cotton Creations* lines.

We continued our innovative and expressive advertising and marketing campaign called Girl Talk, launched in September 2007, in which confident, everyday women talk about their breasts, in support of our *Playtex 18 Hour* and *Playtex Secrets* product lines.

**Distribution**

As of January 2, 2010, we distributed our products for the U.S. market from a total of 19 distribution centers. These facilities include 17 facilities located in the United States and two facilities located outside the United States in regions where we manufacture our products. We internally manage and operate 13 of these facilities, and we use third-party logistics providers who operate the other six facilities on our behalf. International distribution operations use a combination of third-party logistics providers, as well as owned and operated distribution operations, to distribute goods to our various international markets.

We have reduced the number of distribution centers from the 48 that we maintained at the time of the spin off to 33 as of January 2, 2010. The consolidation of our distribution network is still in process but will not result in any substantial charges in future periods. The distribution network consolidation involves the implementation of new warehouse management systems and technology, and opening of new distribution centers and new third-party logistics providers to replace parts of our legacy distribution network. In January 2009, we began shipping products from a new 1.3 million square foot distribution center in Perris, California.

**Manufacturing and Sourcing**

During 2009, approximately 70% of our finished goods sold were manufactured through a combination of facilities we own and operate and facilities owned and operated by third-party contractors who perform some of the steps in the manufacturing process for us, such as cutting and/or sewing. We sourced the remainder of our finished goods from third-party manufacturers who supply us with finished products based on our designs. We believe that our balanced approach to product supply, which relies on a combination of owned, contracted and sourced manufacturing located across different geographic regions, increases the efficiency of our operations, reduces product costs and offers customers a reliable source of supply.

***Finished Goods That Are Manufactured by Hanesbrands***

The manufacturing process for the finished goods that we manufacture begins with raw materials we obtain from suppliers. The principal raw materials in our product categories are cotton and synthetics. Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by, among other factors, weather, consumer demand, speculation on the commodities market and the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. We employ a dollar cost averaging strategy by entering into hedging contracts on cotton designed to protect us from severe market fluctuations in the wholesale prices of cotton. In addition to cotton yarn and cotton-based textiles, we use thread, narrow elastic and trim for product identification, buttons, zippers, snaps and lace.

Fluctuations in crude oil or petroleum prices may also influence the prices of items used in our business, such as chemicals, dyestuffs, polyester yarn and foam. Alternate sources of these materials and services are readily available. Cotton and synthetic materials are typically spun into yarn, which is then knitted into cotton, synthetic and blended fabrics. Although historically we have spun a significant portion of the yarn and knit a significant portion of the fabrics we use in our owned and operated facilities, in October 2009, we completed the sale of our yarn operations as a result of which we ceased making our own yarn and now source all of our yarn requirements from large-scale yarn suppliers. To a lesser extent, we purchase fabric from several domestic and international suppliers in conjunction with scheduled production. These fabrics are cut and sewn into finished products, either by us or by third-party contractors. Most of our cutting and sewing operations are strategically located in Asia, Central America and the Caribbean Basin.

Rising fuel, energy and utility costs may have a significant impact on our manufacturing costs. These costs may fluctuate due to a number of factors outside our control, including government policy and regulation, foreign exchange rates and weather conditions.

We continued to consolidate our manufacturing facilities and currently operate 41 manufacturing facilities, down from 70 at the time of our spin off. In making decisions about the location of manufacturing operations and third-party sources of supply, we consider a number of factors, including labor, local operating costs, quality, regional infrastructure, applicable quotas and duties, and freight costs. During the fourth quarter of 2009, we commenced production at our textile production plant in Nanjing, China, our 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, thereby diversifying our production risks. During the fourth quarter of 2008, we commenced production at our 500,000 square foot sock manufacturing facility in El Salvador. This facility, co-located with textile manufacturing operations that we acquired in 2007, provides a manufacturing base in Central America from which to leverage our production scale at a lower cost location. In October 2008, we acquired a 370-employee embroidery and screen-print facility in Honduras. For the past eight years, these operations have produced embroidered and screen-printed apparel for us. This acquisition better positions us for long-term growth in these segments. During the second quarter of 2008, we added three company-owned sewing plants in Southeast Asia two in Vietnam and one in Thailand giving us four sewing plants in Asia.

***Finished Goods That Are Manufactured by Third Parties***

In addition to our manufacturing capabilities, we also source finished goods we design from third-party manufacturers, also referred to as turnkey products. Many of these turnkey products are sourced from international suppliers by our strategic sourcing hubs in Hong Kong and other locations in Asia.

All contracted and sourced manufacturing must meet our high quality standards. Further, all contractors and third-party manufacturers must be preaudited and adhere to our strict supplier and business practices guidelines. These requirements provide strict standards covering hours of work, age of workers, health and safety conditions and conformity with local laws and Hanesbrands standards. Each new supplier must be inspected and agree to comprehensive compliance terms prior to performance of any production on our behalf. We audit compliance with these standards and maintain strict compliance performance records. In addition to our audit procedures, we require certain of our suppliers to be Worldwide Responsible Apparel Production, or WRAP, certified. WRAP is a recognized apparel certification program that independently monitors and certifies compliance with certain specified manufacturing standards that are intended to ensure that a given factory produces sewn goods under lawful, humane, and ethical conditions. WRAP uses third-party, independent certification firms and requires factory-by-factory certification.

**Trade Regulation**

We are exposed to certain risks of doing business outside of the United States. We import goods from company-owned facilities in Asia, Central America, the Caribbean Basin and Mexico, and from suppliers in those areas and in Europe, South America, Africa and the Middle East. These import transactions are subject to customs, trade and other laws and regulations governing their entry into the United States and to tariffs applicable to such merchandise.

In addition, much of the merchandise we import is subject to duty free entry into the United States under various trade preferences and/or free trade agreements provided the goods meet certain criteria and characteristics. Compliance with these specific requirements as well as all other requirements is reviewed periodically by the United States Customs and Border Control and other governmental agencies.

Finally, imported apparel merchandise may be subject to various restrictive trade actions initiated by the United States government, domestic industry, labor or other parties under various U.S. laws. Such actions could result in the U.S. government imposing quotas or additional tariffs against apparel under special safeguard actions applicable to China, other safeguard actions applicable to any country, or antidumping or countervailing duties applicable to specific products from specific countries. Currently there are no such actions, additional, special or safeguard duties or quotas imposed against products which we import. Our management evaluates the possible impact of these and similar actions on our ability to import products from China and other countries. If such safeguards or duties were to be imposed, we do not expect that these restraints would have a material impact on us.

Moreover, our management monitors new developments and risks relating to duties, tariffs and quotas. Changes in these areas have the potential to harm or, in some cases, benefit our business. In response to the changing import environment management has chosen to continue its balanced approach to manufacturing and sourcing. We attempt to limit our sourcing exposure through geographic diversification with a mix of company-owned and contracted production, as well as shifts of production among countries and contractors. We will continue to manage our supply chain from a global perspective and adjust as needed to changes in the global production environment.

We also monitor a number of international security risks. We are a member of the Customs-Trade Partnership Against Terrorism, or C-TPAT, a partnership between the government and private sector initiated after the events of September 11, 2001 to improve supply chain and border security. C-TPAT partners work with U.S. Customs and Border Protection to protect their supply chains from concealment of terrorist weapons, including weapons of mass destruction. In exchange, U.S. Customs and Border Protection provides reduced inspections at the port of arrival and expedited processing at the border.

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## Competition

The apparel essentials market is highly competitive and rapidly evolving. Competition generally is based upon price, brand name recognition, product quality, selection, service and purchasing convenience. Our businesses face competition today from other large corporations and foreign manufacturers. Fruit of the Loom, Inc., a subsidiary of Berkshire Hathaway Inc., competes with us across most of our segments through its own offerings and those of its Russell Corporation and Vanity Fair Intimates offerings. Other competitors in our Innerwear segment include Limited Brands, Inc. s Victoria s Secret brand, Jockey International, Inc., Warnaco Group Inc. and Maidenform Brands, Inc. Other competitors in our Outerwear segment include various private label and controlled brands sold by many of our customers, Gildan Activewear, Inc. and Gap Inc. We also compete with many small manufacturers across all of our business segments, including our International segment. Additionally, department stores and other retailers, including many of our customers, market and sell apparel essentials products under private labels that compete directly with our brands.

Our competitive strengths include our strong brands with leading market positions, our high-volume, core essentials focus, our significant scale of operations, our global supply chain and our strong customer relationships.

*Strong Brands with Leading Market Positions.* According to NPD, our brands hold either the number one or number two U.S. market position by sales value in most product categories in which we compete, for the 12 month period ended December 31, 2009. According to NPD, our largest brand, *Hanes*, is the top-selling apparel brand in the United States by units sold, for the 12 month period ended December 31, 2009.

*High-Volume, Core Essentials Focus.* We sell high-volume, frequently replenished apparel essentials. The majority of our core styles continue from year to year, with variations only in color, fabric or design details, and are frequently replenished by consumers. We believe that our status as a high-volume seller of core apparel essentials creates a more stable and predictable revenue base and reduces our exposure to dramatic fashion shifts often observed in the general apparel industry.

*Significant Scale of Operations.* According to NPD, we are the largest seller of apparel essentials in the United States as measured by units sold for the 12 month period ended December 31, 2009. Most of our products are sold to large retailers that have high-volume demands. We believe that we are able to leverage our significant scale of operations to provide us with greater manufacturing efficiencies, purchasing power and product design, marketing and customer management resources than our smaller competitors.

*Global Supply Chain.* We have restructured our supply chain over the past three years to create more efficient production clusters that utilize fewer, larger facilities and to balance our production capability between the Western Hemisphere and Asia. With our global supply chain infrastructure substantially in place, we are now focused on optimizing our supply chain to further enhance efficiency, improve working capital and asset turns and reduce costs.

*Strong Customer Relationships.* We sell our products primarily through large, high-volume retailers, including mass merchants, department stores and national chains. We have strong, long-term relationships with our top customers, including relationships of more than ten years with each of our top ten customers. We have aligned significant parts of our organization with corresponding parts of our customers organizations. We also have entered into customer-specific programs such as the *C9 by Champion* products marketed and sold through Target stores and the recently expanded presence at Wal-Mart of our *Just My Size* brand.

## Intellectual Property

### *Overview*

We market our products under hundreds of trademarks and service marks in the United States and other countries around the world, the most widely recognized of which are *Hanes, Champion, C9 by Champion, Playtex, Bali, L eggs, Just My Size, barely there*, *Wonderbra, Stedman, Outer Banks, Zorba, Rinbros* and *Duofold.* Some of our products are sold under trademarks that have been licensed from third parties, such as *Polo Ralph Lauren* men s underwear, and we also hold licenses from various toy and media companies that give us the right to use certain of their proprietary characters, names and trademarks.

Some of our own trademarks are licensed to third parties, such as *Champion* for athletic-oriented accessories. In the United States, the *Playtex* trademark is owned by Playtex Marketing Corporation, of which we own a 50% interest and which grants to us a perpetual royalty-free license to the *Playtex* trademark on and in connection with the sale of apparel in the United States and Canada. The other 50% interest in Playtex Marketing Corporation is owned by Playtex Products, Inc., an unrelated third-party, who has a perpetual royalty-free license to the *Playtex* trademark on and in connection with the sale of non-apparel products in the United States. Outside the United States and Canada, we own the *Playtex* trademark and perpetually license such trademark to Playtex Products, Inc. for non-apparel products. In addition, as described below, as part of Sara Lee s sale in February 2006 of its European branded apparel business, an affiliate of Sun Capital Partners, Inc., or Sun Capital, has an exclusive, perpetual, royalty-free license to manufacture, sell and distribute apparel products under the *Wonderbra* and *Playtex* trademarks in the member states of the EU, as well as several other European nations and South Africa. We also own a number of copyrights. Our trademarks and copyrights are important to our marketing efforts and have substantial value. We aggressively protect these trademarks and copyrights from infringement and dilution through appropriate measures, including court actions and administrative proceedings.

Although the laws vary by jurisdiction, trademarks generally remain valid as long as they are in use and/or their registrations are properly maintained. Most of the trademarks in our portfolio, including our core brands, are covered by trademark registrations in the countries of the world in which we do business, with registration periods generally ranging between seven and 10 years depending on the country. Trademark registrations can be renewed indefinitely as long as the trademarks are in use. We have an active program designed to ensure that our trademarks are registered, renewed, protected and maintained. We plan to continue to use all of our core trademarks and plan to renew the registrations for such trademarks for as long as we continue to use them. Most of our copyrights are unregistered, although we have a sizable portfolio of copyrighted lace designs that are the subject of a number of registrations at the U.S. Copyright Office.

We place high importance on product innovation and design, and a number of these innovations and designs are the subject of patents. However, we do not regard any segment of our business as being dependent upon any single patent or group of related patents. In addition, we own proprietary trade secrets, technology, and know how that we have not patented.

***Shared Trademark Relationship with Sun Capital***

In February 2006, Sara Lee sold its European branded apparel business to an affiliate of Sun Capital. In connection with the sale, Sun Capital received an exclusive, perpetual, royalty-free license to manufacture, sell and distribute apparel products under the *Wonderbra* and *Playtex* trademarks in the member states of the EU, as well as Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Morocco, Norway, Romania, Russia, Serbia-Montenegro, South Africa, Switzerland, Ukraine, Andorra, Albania, Channel Islands, Lichtenstein, Monaco, Gibraltar, Guadeloupe, Martinique, Reunion and French Guyana, which we refer to as the Covered Nations. We are not permitted to sell *Wonderbra* and *Playtex* branded products in the Covered Nations, and Sun Capital is not permitted to sell *Wonderbra* and *Playtex* branded products outside of the Covered Nations. In connection with the sale, we also have received an exclusive, perpetual royalty-free license to sell *DIM* and *UNNO* branded products in Panama, Honduras, El Salvador, Costa Rica, Nicaragua, Belize, Guatemala, Mexico, Puerto Rico, the United States, Canada and, for *DIM* products, Japan. We are not permitted to sell *DIM* or *UNNO* branded apparel products outside of these countries and Sun Capital is not permitted to sell *DIM* or *UNNO* branded apparel products inside these countries. In addition, the rights to certain European-originated brands previously part of Sara Lee s branded apparel portfolio were transferred to Sun Capital and are not included in our brand portfolio.

***Licensing Relationship with Tupperware Corporation***

In December 2005, Sara Lee sold its direct selling business, which markets cosmetics, skin care products, toiletries and clothing in 18 countries, to Tupperware Corporation, or Tupperware. In connection with the sale, Dart Industries Inc., or Dart, an affiliate of Tupperware, received a three-year exclusive license agreement, which has been extended to March 31, 2010, to use the *C Logo*, *Champion U.S.A.*, *Wonderbra*, *W by Wonderbra*, *The One and Only Wonderbra*, *Playtex*, *Just My Size* and *Hanes* trademarks for the manufacture and sale, under the applicable brands, of certain men s and women s apparel in the Philippines, including underwear, socks, sportswear products, bras, panties and girdles. Dart also received a ten-year, royalty-free, exclusive license to use the *Girls Attitudes* trademark for the manufacture and sale of certain toiletries, cosmetics, intimate apparel, underwear, sportswear, watches, bags and towels in the Philippines. The rights and obligations under these agreements were assigned to us as part of the spin off.

In connection with the sale of Sara Lee s direct selling business, Tupperware also signed two five-year distributorship agreements providing Tupperware with the right to distribute and sell, through door-to-door and similar channels, *Playtex*, *Champion*, *Rinbros*, *Aire*, *Wonderbra*, *Hanes* and *Teens by Hanes* apparel items in Mexico that we have discontinued and/or determined to be obsolete. The agreements also provide Tupperware with the exclusive right for five years to distribute and sell through such channels such apparel items sold by us in the ordinary course of business. The agreements also grant a limited right to use such trademarks solely in connection with the distribution and sale of those products in Mexico.

Under the terms of the agreements, we reserve the right to apply for, prosecute and maintain trademark registrations in Mexico for those products covered by the distributorship agreement. The rights and obligations under these agreements were assigned to us as part of the spin off.

**Corporate Social Responsibility**

We have a formal corporate social responsibility ( CSR ) program that consists of five core initiatives: a global business practices ethics program for all employees worldwide; a facility compliance program that seeks to ensure company and supplier plants meet our labor and social compliance standards; a product safety program; a global environmental management system that seeks to reduce the environmental impact of our operations; and a commitment to corporate philanthropy which seeks to meet the fundamental needs of the communities in which we live and work. We employ over 15 full-time CSR personnel across the world to manage our program.

In February 2008, we joined the Fair Labor Association and are currently undergoing the final stages of the Fair Labor Association s two-year implementation process for accreditation of our internal global social compliance program. The Fair Labor Association works with industry, civil society organizations and colleges and universities to protect workers rights and improve working conditions in factories around the world. Participating companies in the Fair Labor Association are required to fulfill 10 company obligations, including conducting internal monitoring of facilities, submitting to independent monitoring audits and verification, and managing and reporting information on their compliance efforts. The Fair Labor Association conducts unannounced independent external monitoring audits of a sample of a participating company s plants and suppliers and publishes the results of those audits for the public to review.

We are committed to reducing our greenhouse gas footprint and our contribution to global climate change. We have implemented a comprehensive corporate energy policy. We manage this commitment by reducing our energy consumption as much as possible, exploring better supply chain management to reduce our use of energy-intensive transportation, adopting cleaner technologies where possible and actively tracking our energy metrics. We have partnered closely with Energy Star, a joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy that helps save money and protect the environment through energy efficient products and practices.

We also incorporate Leadership in Energy and Environmental Design, or LEED -based practices into many remodeling and new construction projects for our facilities around the world. We earned the U.S. Green Building Council s sustainability certification for our Bentonville, Arkansas sales office. We are also currently working on LEED certification of manufacturing facilities in El Salvador, Vietnam and China and our distribution center in Perris, California. Sustainable features of the Perris facility include reduction of energy usage through extensive use of natural skylighting, motion-detection lighting, a design that does not require heating or air conditioning for a comfortable working environment, reduction of water usage compared with typical warehouses of its size through low-water bathroom fixtures and low-water landscaping, innovative site grading techniques and use of locally produced concrete and steel and many other LEED concepts such as use of paints, carpets and other materials with low volatile organic compound content, an organic-focused pest control program that minimizes chemical pesticide use, location near public transportation to reduce the parking lot size and reliance on automobile transportation, preferred parking for low-emission and low-energy vehicles, and on-site bicycle storage and shower and changing room facilities.

Our corporate philanthropic efforts are focused on meeting the fundamental needs of the communities in which we live and work. Last year, we were again the largest corporate giver to our local United Way in Forsyth County, North Carolina, with our corporate and employee gifts totaling nearly $2 million. While we do not have company-owned operations in Haiti, we donated over $2.2 million in apparel to the relief effort, made a $25,000 cash donation to CARE, and donated food and other staples directly to the employees of third-party contractors we use in Port-au-Prince in early 2010.

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### Environmental Matters

We have a well-developed environmental program that focuses heavily on energy use (in particular the use of renewable energy), water use and treatment, and the use of chemicals that comply with our restricted substances list. We are subject to various federal, state, local and foreign laws and regulations that govern our activities, operations and products that may have adverse environmental, health and safety effects, including laws and regulations relating to generating emissions, water discharges, waste, product and packaging content and workplace safety. Noncompliance with these laws and regulations may result in substantial monetary penalties and criminal sanctions. We are aware of hazardous substances or petroleum releases at a few of our facilities and are working with the relevant environmental authorities to investigate and address such releases. We also have been identified as a potentially responsible party at a few waste disposal sites undergoing investigation and cleanup under the federal Comprehensive Environmental Response, Compensation and Liability Act (commonly known as Superfund) or state Superfund equivalent programs. Where we have determined that a liability has been incurred and the amount of the loss can reasonably be estimated, we have accrued amounts in our balance sheet for losses related to these sites. Compliance with environmental laws and regulations and our remedial environmental obligations historically have not had a material impact on our operations, and we are not aware of any proposed regulations or remedial obligations that could trigger significant costs or capital expenditures in order to comply.

### Governmental Regulation

Finally, we are subject to U.S. federal, state and local laws and regulations that could affect our business, including those promulgated under the Occupational Safety and Health Act, the Consumer Product Safety Act, the Flammable Fabrics Act, the Textile Fiber Product Identification Act, the rules and regulations of the Consumer Products Safety Commission and various environmental laws and regulations. While we have had a product safety program in place for many years focused heavily on children s products, we have reinforced our product safety team and technological capabilities to ensure that we are fully in compliance with the new Consumer Products Safety Improvement Act. Our international businesses are subject to similar laws and regulations in the countries in which they operate. Our operations also are subject to various international trade agreements and regulations. See Trade Regulation. While we believe that we are in compliance in all material respects with all applicable governmental regulations, current governmental regulations may change or become more stringent or unforeseen events may occur, any of which could have a material adverse effect on our financial position or results of operations.

### Employees

As of January 2, 2010, we had approximately 47,400 employees, approximately 7,800 of whom were located in the United States. Of the employees located in the United States, approximately 2,400 were full or part-time employees in our stores within our direct to consumer channel. As of January 2, 2010, in the United States, approximately 25 employees were covered by collective bargaining agreements. Some of our international employees were also covered by collective bargaining agreements. We believe our relationships with our employees are good.

## Item 1A. *Risk Factors*

This section describes circumstances or events that could have a negative effect on our financial results or operations or that could change, for the worse, existing trends in our businesses. The occurrence of one or more of the circumstances or events described below could have a material adverse effect on our financial condition, results of operations and cash flows or on the trading prices of our common stock. The risks and uncertainties described in this Annual Report on Form 10-K are not the only ones facing us. Additional risks and uncertainties that currently are not known to us or that we currently believe are immaterial also may adversely affect our businesses and operations.

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***Our supply chain relies on an extensive network of operations and any disruption to or adverse impact on such operations may adversely affect our business, results of operations, financial condition and cash flows.***

We have an extensive global supply chain. A significant portion of our products are manufactured in or sourced from locations in Asia, Central America, the Caribbean Basin and Mexico and we are continuing to add new manufacturing capacity in Asia, Central America and the Caribbean Basin. Potential events that may disrupt our supply chain operations include:

- political instability and acts of war or terrorism or other international events resulting in the disruption of trade;
- other security risks;
- 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, including power shortages;
- fluctuations in foreign currency exchange rates resulting in uncertainty as to future asset and liability values, cost of goods and results of operations that are denominated in foreign currencies;
- extraordinary weather conditions or natural disasters, such as hurricanes, earthquakes, tsunamis, floods or fires; and
- the occurrence of an epidemic, the spread of which may impact our ability to obtain products on a timely basis.

Disruptions in our supply chain could negatively impact our business by interrupting production, increasing our cost of sales, disrupting merchandise deliveries, delaying receipt of 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. All of the foregoing can have an adverse effect on our business, results of operations, financial condition and cash flows.

***Significant fluctuations and volatility in the price of cotton and other raw materials we purchase may have a material adverse effect on our business, results of operations, financial condition and cash flows.***

Cotton is the primary raw material used in the manufacturing of many of our products. While we have sold our yarn operations, we are still exposed to fluctuations in the cost of cotton. Increases in the cost of cotton can result in higher costs in the price we pay for yarn from our large-scale yarn suppliers. Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by 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 attempt to protect our business from the volatility of the market price of cotton through employing a dollar cost averaging strategy by entering into hedging contracts from time to time, our business can be adversely affected by dramatic movements in cotton prices. The cotton prices reflected in our results were 55 cents per pound in 2009 and 65 cents per pound in 2008. The ultimate effect of these pricing levels on our earnings cannot be quantified, as the effect of movements in cotton prices on industry selling prices are uncertain, but any dramatic increase in the price of cotton could have a material adverse effect on our business, results of operations, financial condition and cash flows.

We are not always successful in our efforts to protect our business from the volatility of the market price of cotton, and our business can be adversely affected by dramatic movements in cotton prices. For example, we estimate that a change of $0.01 per pound in cotton prices would affect our annual raw material costs by $3 million, at current levels of production. The ultimate effect of this change on our earnings cannot be quantified, as the effect of movements in cotton prices on industry selling prices are uncertain, but any dramatic increase in the price of cotton would have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, oil-related commodity prices and the costs of other raw materials used in our products, such as dyes and chemicals, and other costs, such as fuel, energy and utility costs, may fluctuate due to a number of factors outside our control, including government policy and regulation and weather conditions. For example, we estimate that a change of $10.00 per barrel in the price of oil would affect our freight costs by approximately $3 million, at current levels of usage.

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

We purchase all of the raw materials used in our products and approximately 30% of the apparel designed by us from a limited number of third-party suppliers and manufacturers. Our ability to meet our customers needs depends on our ability to maintain an uninterrupted supply of raw materials and finished products from our third-party suppliers and manufacturers. Our business, financial condition or results of operations could be adversely affected if any of our principal third-party suppliers or manufacturers experience financial difficulties that they are not able to overcome resulting from the deterioration in worldwide economic conditions, reproduction problems, lack of capacity or transportation disruptions. The magnitude of this risk depends upon the timing of any interruptions, the materials or products that the third-party manufacturers provide and the volume of production.

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

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

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

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

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

We have restructured our supply chain over the past three years to create more efficient production clusters that utilize fewer, larger facilities and to balance our production capability between the Western Hemisphere and Asia. We have closed plant locations, reduced our workforce and relocated some of our manufacturing capacity to lower cost locations in Asia, Central America and the Caribbean Basin and our global supply chain infrastructure is substantially in place, we are now focused on optimizing our supply chain to further enhance efficiency, improve

working capital and asset turns and reduce costs. If we are not able to optimize our supply chain, we may not be successful at improving working capital and asset turns and reducing costs. The consolidation of our distribution network is still in process but will not result in any substantial charges in future periods. The distribution network consolidation involves the implementation of new warehouse management systems and technology, and opening of new distribution centers and new third-party logistics providers to replace parts of our legacy distribution network.

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

We distribute our products from facilities that we operate as well as facilities that are operated by third-party logistics providers. These facilities include a combination of owned, leased and contracted distribution centers. We have reduced the number of distribution centers from the 48 that we maintained at the time of the spin off to 33 as of January 2, 2010. In January 2009, we began shipping products from a new 1.3 million square foot distribution center in Perris, California. The consolidation of our distribution is still in process but will not result in any substantial charges in future periods. The distribution network consolidation involves the implementation of new warehouse management systems and technology, and opening of new distribution centers and new third-party logistics providers to replace parts of our legacy distribution network. Because substantially all of our products are distributed from a relatively small number of locations, our operations could also be interrupted by extraordinary weather conditions or natural disasters, such as hurricanes, earthquakes, tsunamis, floods or fires near our distribution centers. We maintain business interruption insurance, but it may not adequately protect us from the adverse effects that could be caused by significant disruptions to our distribution network. In addition, our distribution network is dependent on the timely performance of services by third parties, including the transportation of product to and from our distribution facilities. If we are unable to successfully operate our distribution network, our business, results of operations, financial condition and cash flows could be adversely affected.

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

Worldwide economic conditions have deteriorated significantly since mid-2008 in many countries and regions, including the United States, and may remain depressed for the foreseeable future. Although the majority of our products are replenishment in nature and tend to be purchased by consumers on a planned, rather than on an impulse, basis, our sales are impacted by discretionary spending by our customers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, consumers uncertainty about financial conditions, the availability of consumer credit, currency exchange rates, taxation, electricity power rates, gasoline prices, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside of our control. During the past several years, various retailers, including some of our largest customers, have experienced significant difficulties, including restructurings, bankruptcies and liquidations, and the inability of retailers to overcome these difficulties may increase due to worldwide economic conditions. This could adversely affect us because our customers generally pay us after goods are delivered. Adverse changes in a customer s financial position could cause us to limit or discontinue business with that customer, require us to assume more credit risk relating to that customer s future purchases or limit our ability to collect accounts receivable relating to previous purchases by that customer. Our customers purchases of discretionary items, including our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. Any of these occurrences could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

In addition, economic conditions, including decreased access to credit, may result in financial difficulties leading to restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers of raw materials and finished goods, logistics and other service providers and financial institutions which are counterparties to our credit facilities and derivatives transactions. In addition, the inability of these third parties to overcome these difficulties may increase. For example, several customers filed for bankruptcy during 2008 and 2009. If third parties on which we rely for raw materials, finished goods or services are unable to overcome difficulties resulting from the deterioration in worldwide economic conditions and provide us with the materials and services we need, or if counterparties to our credit facilities or derivatives transactions do not perform their obligations, our business, results of operations, financial condition and cash flows could be adversely affected.

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

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

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

In 2009, our top ten customers accounted for 65% of our net sales and our top customers, Wal-Mart and Target, accounted for 27% and 17% of our net sales, respectively. We expect that these customers will continue to represent a significant portion of our net sales in the future. In addition, our top customers are the largest market participants in our primary distribution channels across all of our product lines. Any loss of or material reduction in sales to any of our top ten customers, especially Wal-Mart and Target, would be difficult to recapture, and would have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

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

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

As widely reported, financial markets in the United States, Europe and Asia have been experiencing extreme disruption since mid-2008. As a result of this disruption in the domestic and international equity and bond markets, our pension plans and other postemployment plans had an increase in asset values of approximately 8% during 2009 and had a decrease of 32% during 2008. We are unable to predict the significant variations in asset values or the severity or duration of the current disruptions in the financial markets and the adverse economic conditions in the United States, Europe and Asia. The funded status of these plans, and the related cost reflected in our financial statements, are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Under the Pension Protection Act of 2006 (the Pension Protection Act ), continued losses of asset values may necessitate increased funding of the plans in the future to meet minimum federal government requirements. The continued downward pressure on the asset values of these plans may require us to fund obligations earlier than we had originally planned, which would have a negative impact on cash flows from operations.

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

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

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

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

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

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

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

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

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

We have a substantial amount of indebtedness. As described in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, our indebtedness includes the $750 million term loan and $400 million revolving credit facility (the Revolving Loan Facility ) pursuant to our senior secured credit facility that we entered into in 2006 and amended and restated on December 10, 2009 (as amended and restated, the 2009 Senior Secured Credit Facility ), our $500 million Floating Rate Senior Notes due 2014 (the Floating Rate Senior Notes ), our $500 million 8.000% Senior Notes due 2016 (the 8% Senior Notes ) and the $250 million accounts receivable securitization facility that we entered into on November 27, 2007 as amended in December 2009 (the Accounts Receivable Securitization Facility ). The 2009 Senior Secured Credit Facility and the indentures governing the Floating Rate Senior Notes and the 8% Senior Notes contain restrictions

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that affect, and in some cases significantly limit or prohibit, among other things, our ability to borrow funds, pay dividends or make other distributions, make investments, engage in transactions with affiliates, or create liens on our assets.

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

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

Covenants in the 2009 Senior Secured Credit Facility and the Accounts Receivable Securitization Facility require us to maintain a minimum interest coverage ratio and a maximum total debt to EBITDA (earnings before income taxes, depreciation expense and amortization), or leverage ratio. The recent deterioration of worldwide economic conditions could impact our ability to maintain the financial ratios contained in these agreements. If we fail to maintain these financial ratios, that failure could result in a default that accelerates the maturity of the indebtedness under such facilities, which could require that we repay such indebtedness in full, together with accrued and unpaid interest, unless we are able to negotiate new financial ratios or waivers of our current ratios with our lenders. Even if we are able to negotiate new financial ratios or waivers of our current financial ratios, we may be required to pay fees or make other concessions that may adversely impact our business. Any one of these options could result in significantly higher interest expense in 2010 and beyond. For information regarding our compliance with these covenants, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Trends and Uncertainties Affecting Liquidity.

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

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

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

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

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

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

The amount of the income of our foreign subsidiaries that we expect to remit to the United States may significantly impact our U.S. federal income tax expense. We pay U.S. federal income taxes on that portion of the income of our foreign subsidiaries that is expected to be remitted to the United States and be taxable. In order to service our debt obligations, we may need to increase the portion of the income of our foreign subsidiaries that we expect to remit to the United States, which may significantly increase our income tax expense. Consequently, our income tax expense has been, and will continue to be, impacted by our strategic initiative to make substantial capital investments outside the United States.

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

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

As of January 2, 2010, we had approximately $136 million of trademarks and other identifiable intangibles and $322 million of goodwill on our balance sheet. Our trademarks are subject to amortization while goodwill is not required to be amortized under current accounting rules. The combined amounts represent 14% of our total assets.

Goodwill must be tested for impairment at least annually. No impairment was identified as a result of the testing conducted in 2009. The impairment test requires us to estimate the fair value of our reporting units, primarily using discounted cash flow methodologies based on projected revenues and cash flows that will be derived from a reporting unit. Intangible assets that are being amortized must be tested for impairment whenever events or circumstances indicate that their carrying value might not be recoverable.

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

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

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

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

As of January 2, 2010, we had approximately $492 million of net deferred tax assets on our balance sheet which represents 15% of our total assets. Deferred tax assets relate to temporary differences (differences between the assets and liabilities in the consolidated financial statements and the assets and liabilities in the calculation of taxable income). The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the tax benefits associated with the deferred tax benefits will not be realized. If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowances against our deferred tax assets, which would cause an increase in our effective tax rate. A significant increase in our effective tax rate could have a material adverse effect on our financial condition or results of operations.

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

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

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

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

***Compliance with environmental and other regulations could require significant expenditures.***

We are subject to various federal, state, local and foreign laws and regulations that govern our activities, operations and products that may have adverse environmental, health and safety effects, including laws and regulations relating to generating emissions, water discharges, waste, product and packaging content and workplace safety. Noncompliance with these laws and regulations may result in substantial monetary penalties and criminal sanctions. Future events that could give rise to manufacturing interruptions or environmental remediation include changes in existing laws and regulations, the enactment of new laws and regulations, a release of hazardous

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substances on or from our properties or any associated offsite disposal location, or the discovery of contamination from current or prior activities at any of our properties. While we are not aware of any proposed regulations or remedial obligations that could trigger significant costs or capital expenditures in order to comply, any such regulations or obligations could adversely affect our business, results of operations, financial condition and cash flows.

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

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

- additional duties, taxes, tariffs and other charges on imports, including retaliatory duties or other trade sanctions, which may or may not be based on WTO rules, and which would increase the cost of products produced in such countries;
- limitations on the quantity of goods which may be imported into the United States from a particular country, including the imposition of further safeguard mechanisms by the U.S. government or governments in other jurisdictions, limiting our ability to import goods from particular countries, such as China;
- changes in the classification of products that could result in higher duty rates than we have historically paid;
- modification of the trading status of certain countries;
- requirements as to where products are manufactured;
- creation of export licensing requirements, imposition of restrictions on export quantities or specification of minimum export pricing; or
- creation of other restrictions on imports.

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

***We had approximately 47,400 employees worldwide as of January 2, 2010, and our business operations and financial performance could be adversely affected by changes in our relationship with our employees or changes to U.S. or foreign employment regulations.***

We had approximately 47,400 employees worldwide as of January 2, 2010. This means we have a significant exposure to changes in domestic and foreign laws governing our relationships with our employees, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers compensation rates, citizenship requirements and payroll taxes, which likely would have a direct impact on our operating costs. Approximately 39,600 of those employees were outside of the United States. A significant increase in minimum wage or overtime rates in countries where we have employees could have a significant impact on our operating costs and may require that we relocate those operations or take other steps to mitigate such increases, all of which may cause us to incur additional costs, expend resources responding to such increases and lower our margins.

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

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

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

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

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

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

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

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

In February 2006, Sara Lee sold its European branded apparel business to Sun Capital. In connection with the sale, Sun Capital received an exclusive, perpetual, royalty-free license to manufacture, sell and distribute apparel products under the *Wonderbra* and *Playtex* trademarks in the member states of the EU, as well as Russia, South Africa, Switzerland and certain other nations in Europe. Due to the exclusive license, we are not permitted to sell *Wonderbra* and *Playtex* branded products in these nations and Sun Capital is not permitted to sell *Wonderbra* and *Playtex* branded products outside of these nations. Consequently, we will not be able to take advantage of business opportunities that may arise relating to the sale of *Wonderbra* and *Playtex* products in these nations. For more information on these sales restrictions see Business Intellectual Property.

***If we are unable to protect our intellectual property rights, our business may be adversely affected.***

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

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

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

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

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

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

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

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

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

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

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

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

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

Our bylaws, which only can be amended by our board of directors, provide that nominations of persons for election to our board of directors and the proposal of business to be considered at a stockholders meeting may be

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

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

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

**Item 1B.** ***Unresolved Staff Comments***

Not applicable.

**Item 1C.** ***Executive Officers of the Registrant***

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

| Name | Age | Positions |
|---|---|---|
| Richard A. Noll | 52 | Chairman of the Board of Directors and Chief Executive Officer |
| Gerald W. Evans Jr. | 50 | President, International Business and Global Supply Chain |
| William J. Nictakis | 49 | President, Chief Commercial Officer |
| Joia M. Johnson | 49 | Executive Vice President, General Counsel and Corporate Secretary |
| Kevin W. Oliver | 52 | Executive Vice President, Human Resources |
| E. Lee Wyatt Jr. | 57 | Executive Vice President, Chief Financial Officer |

*Richard A. Noll* has served as Chairman of the Board of Directors since January 2009, as our Chief Executive Officer since April 2006 and as a director since our formation in September 2005. From December 2002 until the completion of the spin off in September 2006, he also served as a Senior Vice President of Sara Lee. From July 2005 to April 2006, Mr. Noll served as President and Chief Operating Officer of Sara Lee Branded Apparel. Mr. Noll served as Chief Executive Officer of Sara Lee Bakery Group from July 2003 to July 2005 and as the Chief Operating Officer of Sara Lee Bakery Group from July 2002 to July 2003. From July 2001 to July 2002, Mr. Noll was Chief Executive Officer of Sara Lee Legwear, Sara Lee Direct and Sara Lee Mexico. Mr. Noll joined Sara Lee in 1992 and held a number of management positions with increasing responsibilities while employed by Sara Lee.

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

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

*Joia M. Johnson* has served as our Executive Vice President, General Counsel and Corporate Secretary since January 2007. From May 2000 until January 2007, Ms. Johnson served as Executive Vice President, General Counsel and Secretary of RARE Hospitality International, Inc., an owner, operator and franchisor of national chain restaurants.

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

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

## Item 2. *Properties*

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

As of January 2, 2010, we owned and leased properties in 23 countries, including 41 manufacturing facilities and 19 distribution centers, as well as office facilities. The leases for these properties expire between 2010 and 2019, with the exception of some seasonal warehouses that we lease on a month-by-month basis. For more information about our capital lease obligations, see Management s Discussion and Analysis of Financial Condition and Results of Operations Future Contractual Obligations and Commitments.

As of January 2, 2010, we also operated 228 direct outlet stores in 40 states, most of which are leased under five-year, renewable lease agreements. We believe that our facilities, as well as equipment, are in good condition and meet our current business needs.

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The following table summarizes our properties by country as of January 2, 2010:

| Properties by Country (1) | Owned Square Feet | Leased Square Feet | Total |
|---|---|---|---|
| United States | 7,552,597 | 5,467,635 | 13,020,232 |
| Non-U.S. facilities: | | | |
| El Salvador | 1,094,170 | 277,487 | 1,371,657 |
| Honduras | 356,279 | 974,376 | 1,330,655 |
| China | 1,070,912 | 43,740 | 1,114,652 |
| Dominican Republic | 746,484 | 175,661 | 922,145 |
| Mexico | 185,152 | 347,730 | 532,882 |
| Canada | 289,480 | 126,777 | 416,257 |
| Vietnam | 111,385 | 202,361 | 313,746 |
| Costa Rica | 303,419 | | 303,419 |
| Thailand | 277,733 | 24,992 | 302,725 |
| Belgium | | 165,428 | 165,428 |
| Brazil | | 164,548 | 164,548 |
| Argentina | 87,279 | 7,301 | 94,580 |
| 10 other countries | | 77,426 | 77,426 |
| Total non-U.S. facilities | 4,522,293 | 2,587,827 | 7,110,120 |
| Totals | 12,074,890 | 8,055,462 | 20,130,352 |

(1) Excludes vacant land.

The following table summarizes the properties primarily used by our segments as of January 2, 2010:

| Properties by Segment (1) | Owned Square Feet | Leased Square Feet | Total |
|---|---|---|---|
| Innerwear | 4,627,196 | 3,557,336 | 8,184,532 |
| Outerwear | 2,744,663 | 1,398,907 | 4,143,570 |
| Hosiery | 1,138,082 | 39,000 | 1,177,082 |
| Direct to Consumer | | 1,727,303 | 1,727,303 |
| International | 452,014 | 900,283 | 1,352,297 |
| Other (2) | | | |
| Totals | 8,961,955 | 7,622,829 | 16,584,784 |

(1) Excludes vacant land, facilities under construction, facilities no longer in

operation intended for disposal, sourcing offices not associated with a particular segment, and office buildings housing corporate functions.

(2) Our Other segment is comprised primarily of sales of yarn to third parties in the United States and Latin America that maintain asset utilization at certain manufacturing facilities used by one or more of our other segments. No facilities are used primarily by our Other segment.

**Item 3.** ***Legal Proceedings***

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

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

No matters were submitted to a vote of stockholders during the quarter ended January 2, 2010.

## PART II

**Item 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

**Market for our Common Stock**

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

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

| | High | Low |
|---|---|---|
| **2008** | | |
| Quarter ended March 29, 2008 | $ 30.40 | $ 21.47 |
| Quarter ended June 28, 2008 | $ 37.73 | $ 27.45 |
| Quarter ended September 27, 2008 | $ 29.00 | $ 21.38 |
| Quarter ended January 3, 2009 | $ 22.77 | $ 8.54 |
| **2009** | | |
| Quarter ended April 4, 2009 | $ 13.66 | $ 5.14 |
| Quarter ended July 4, 2009 | $ 19.07 | $ 10.76 |
| Quarter ended October 3, 2009 | $ 22.96 | $ 13.07 |
| Quarter ended January 2, 2010 | $ 26.61 | $ 21.02 |

**Holders of Record**

On February 1, 2010, there were 43,529 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to determine the exact number of beneficial stockholders represented by these record holders, but we believe that there were approximately 86,000 beneficial owners of our common stock as of February 1, 2010.

**Dividends**

We currently do not pay regular dividends on our outstanding stock. The declaration of any future dividends and, if declared, the amount of any such dividends, will be subject to our actual future earnings, capital requirements, regulatory restrictions, debt covenants, other contractual restrictions and to the discretion of our board of directors. Our board of directors may take into account such matters as general business conditions, our financial condition and results of operations, our capital requirements, our prospects and such other factors as our board of directors may deem relevant.

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**Issuer Purchases of Equity Securities**

There were no purchases by Hanesbrands during the quarter or year ended January 2, 2010 of equity securities that are registered under Section 12 of the Exchange Act.

**Performance Graph**

The following graph compares the cumulative total stockholder return on our common stock with the comparable cumulative return of the S&P MidCap 400 Index and the S&P 1500 Apparel, Accessories & Luxury Goods Index. The graph assumes that $100 was invested in our common stock and each index on August 11, 2006, the effective date of the registration of our common stock under Section 12 of the Exchange Act, although a when-issued trading market for our common stock did not begin until August 16, 2006, and regular way trading did not begin until September 6, 2006. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

**COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN**

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**Equity Compensation Plan Information**

The following table provides information about our equity compensation plans as of January 2, 2010.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance (1) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 7,987,847 | $ 21.73 | 4,535,888 |
| Equity compensation plans not approved by security holders | | | |
| Total | 7,987,847 | $ 21.73 | 4,535,888 |

(1) The amount appearing under Number of securities remaining available for future issuance under equity compensation plans includes 2,456,864 shares available under the Hanesbrands Inc. Omnibus Incentive Plan of 2006 and 2,079,024 shares available under the Hanesbrands Inc. Employee Stock Purchase Plan of 2006.

**Item 6.** ***Selected Financial Data***

The following table presents our selected historical financial data. The statement of income data for the years ended January 2, 2010, January 3, 2009 and December 29, 2007 and the balance sheet data as of January 2, 2010 and January 3, 2009 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The statement of income data for the six-month period ended December 30, 2006 and the years ended July 1, 2006 and July 2, 2005 and the balance sheet data as of December 29, 2007, December 30, 2006, July 1