Hanesbrands Inc.
Form 10-Q
August 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to

Commission file number: 001-32891

Hanesbrands Inc.

(Exact name of registrant as specified in its charter)

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

(336) 519-8080

(Registrant s telephone number including area code)

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

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

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

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

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

As of July 27, 2012, there were 97,602,546 shares of the registrant s common stock outstanding.

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Trademarks, Trade Names and Service Marks

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

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FORWARD-LOOKING STATEMENTS

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

Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the year ended December 31, 2011, particularly under the caption Risk Factors.

All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended December 31, 2011, particularly under the caption Risk Factors. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

WHERE YOU CAN FIND MORE INFORMATION

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

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

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For the quarterly period ended June 30, 2012

PART I

Item 1. ***Financial Statements***

HANESBRANDS INC.

Condensed Consolidated Statements of Income (Loss)

(in thousands, except per share amounts)

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30, 2012	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Net sales	$ 1,180,651	$ 1,167,986	$ 2,153,784	$ 2,148,036
Cost of sales	813,719	757,962	1,531,738	1,397,054
Gross profit	366,932	410,024	622,046	750,982
Selling, general and administrative expenses	246,981	274,202	491,450	523,068
Operating profit	119,951	135,822	130,596	227,914
Other expenses	811	814	1,456	1,415
Interest expense, net	36,611	39,127	73,606	80,228
Income from continuing operations before income tax expense	82,529	95,881	55,534	146,271
Income tax expense	15,213	18,121	12,489	27,544
Income from continuing operations	67,316	77,760	43,045	118,727
Income (loss) from discontinued operations, net of tax	(66,085)	9,022	(68,644)	16,164
Net income (loss)	$ 1,231	$ 86,782	$ (25,599)	$ 134,891
Earnings (loss) per share basic:				
Continuing operations	$ 0.68	$ 0.80	$ 0.44	$ 1.22
Discontinued operations	(0.67)	0.09	(0.70)	0.17
Net income (loss)	$ 0.01	$ 0.89	$ (0.26)	$ 1.39
Earnings (loss) per share diluted:				
Continuing operations	$ 0.67	$ 0.78	$ 0.43	$ 1.20
Discontinued operations	(0.66)	0.09	(0.69)	0.16
Net income (loss)	$ 0.01	$ 0.87	$ (0.26)	$ 1.36
Weighted average shares outstanding:				
Basic	98,572	97,537	98,553	97,366

Diluted	100,066	99,224	99,962	98,927

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(unaudited)

	Quarter Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net income (loss)	$ 1,231	$ 86,782	$ (25,599)	$ 134,891
Other comprehensive income (loss), net of tax of $1,054, $1,866, $2,776 and $3,532, respectively	(1,609)	5,725	3,315	12,097
Comprehensive income (loss)	$ (378)	$ 92,507	$ (22,284)	$ 146,988

See accompanying notes to Condensed Consolidated Financial Statements.

HANESBRANDS INC.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

(unaudited)

	June 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 29,662	$ 35,345
Trade accounts receivable, net	585,979	470,713
Inventories	1,435,850	1,607,555
Deferred tax assets	154,507	154,667
Other current assets	49,530	62,511
Total current assets	2,255,528	2,330,791
Property, net	612,515	635,406
Trademarks and other identifiable intangibles, net	125,082	169,675
Goodwill	433,033	433,396
Deferred tax assets	394,729	394,220
Other noncurrent assets	65,169	71,181
Total assets	$ 3,886,056	$ 4,034,669
Liabilities and Stockholders Equity		
Accounts payable	$ 394,978	$ 451,525
Accrued liabilities	203,574	252,186
Notes payable	46,693	63,075
Accounts Receivable Securitization Facility	170,106	166,933
Current portion of long-term debt	148,092	
Total current liabilities	963,443	933,719
Long-term debt	1,660,685	1,807,777
Pension and postretirement benefits	484,529	485,688
Other noncurrent liabilities	119,641	126,424
Total liabilities	3,228,298	3,353,608
Stockholders equity:		
Preferred stock (50,000,000 authorized shares; $.01 par value)		
Issued and outstanding None		
Common stock (500,000,000 authorized shares; $.01 par value)		
Issued and outstanding 97,600,315 and 97,517,325, respectively	976	975
Additional paid-in capital	270,328	266,551
Retained earnings	721,187	746,786
Accumulated other comprehensive loss	(334,733)	(333,251)
Total stockholders equity	657,758	681,061

Total liabilities and stockholders equity	$ 3,886,056	$ 4,034,669

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended	
	June 30, 2012	**July 2, 2011**
Operating activities:		
Net income (loss)	$ (25,599)	$ 134,891
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of long-lived assets	47,049	44,135
Impairment of intangibles	37,597	
Loss on disposition of business	31,616	
Amortization of debt issuance costs	4,891	5,227
Amortization of loss on interest rate hedge	2,160	6,465
Stock compensation expense	3,849	3,237
Deferred taxes and other	(5,485)	3,442
Changes in assets and liabilities, net of acquisition and disposition of businesses:		
Accounts receivable	(126,562)	(105,117)
Inventories	131,571	(307,433)
Other assets	17,307	2,876
Accounts payable	(51,287)	149,673
Accrued liabilities and other	(54,367)	(5,649)
Net cash provided by (used in) operating activities	12,740	(68,253)
Investing activities:		
Capital expenditures	(19,005)	(35,540)
Acquisition of business		(9,154)
Disposition of business	12,903	
Net cash used in investing activities	(6,102)	(44,694)
Financing activities:		
Borrowings on notes payable	31,868	265,012
Repayments on notes payable	(47,554)	(287,103)
Borrowings on Accounts Receivable Securitization Facility	104,043	189,727
Repayments on Accounts Receivable Securitization Facility	(100,870)	(66,672)
Borrowings on Revolving Loan Facility	1,494,500	1,840,000
Repayments on Revolving Loan Facility	(1,493,500)	(1,832,500)
Proceeds from stock options exercised	731	8,062
Other	(832)	(3,325)
Net cash provided by (used in) financing activities	(11,614)	113,201
Effect of changes in foreign exchange rates on cash	(707)	730
Increase (decrease) in cash and cash equivalents	(5,683)	984
Cash and cash equivalents at beginning of year	35,345	43,671

Cash and cash equivalents at end of period	$	29,662	$	44,655

See accompanying notes to Condensed Consolidated Financial Statements.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements

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

(unaudited)

(1) Basis of Presentation

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

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

In May 2012, the Company sold its European imagewear business, and the Company is completing the discontinuation of its private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry. As a result of these actions, the current year and prior-year disclosures reflect these operations as discontinued operations.

(2) Recent Accounting Pronouncements

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board (the FASB) issued new accounting rules related to fair value measurements. The new accounting rules clarify some existing concepts, eliminate wording differences between GAAP and International Financial Reporting Standards (IFRS), and in some limited cases, change some principles to achieve convergence between GAAP and IFRS. The new accounting rules result in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. The new accounting rules also expand the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The adoption of the new accounting rules in the first quarter of 2012 did not have a material effect on our financial condition, results of operations or cash flows.

Presentation of Comprehensive Income

In June 2011, the FASB issued new accounting rules that require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. The new accounting rules eliminate the option to present components of other comprehensive income as part of the statement of equity. The adoption of the new accounting rules in the first quarter of 2012 did not have a material effect on our financial condition, results of operations or cash flows.

In December 2011, the FASB issued new accounting rules which deferred certain provisions of the rules issued in June 2011 that required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. Accordingly, this requirement is indefinitely deferred.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

Goodwill Impairment Testing

In September 2011, the FASB issued new accounting rules related to testing goodwill for impairment. The new accounting rules permit an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the two-step goodwill impairment test prescribed under current accounting rules. Otherwise, the two-step goodwill impairment test is not required. The adoption of the new accounting rules did not have a material effect on our financial condition, results of operations or cash flows.

Disclosures About Offsetting Assets and Liabilities

In December 2011, the FASB issued new accounting rules related to new disclosure requirements regarding the nature of an entity s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new rules are effective for the Company in the first quarter of 2015 with retrospective application required. The Company does not expect the adoption of the new accounting rules to have a material effect on our financial condition, results of operations or cash flows.

(3) Discontinued Operations

European Imagewear

In May 2012, the Company sold its European imagewear business to Smartwares, B.V. for 15,000 (approximately $13,000, net of fees and other transaction related costs) in cash proceeds, resulting in a pre-tax loss of approximately $31,616. The European imagewear business was previously reported within the International segment.

Domestic Imagewear

The Company is completing the discontinuation of its private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry. The Company incurred pre-tax charges of $58,294, substantially all noncash, for the write-down of intangibles, inventory markdowns and other related items. The private-label and Outer Banks domestic imagewear operations were previously reported within the Outerwear segment.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

The operating results of these discontinued operations only reflect revenues and expenses that are directly attributable to these businesses and that will be eliminated from ongoing operations. The key components from discontinued operations related to the European and domestic imagewear businesses were as follows:

	Quarter Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net sales	$ 38,654	$ 57,247	$ 73,854	$ 113,607
Cost of sales	63,711	40,031	99,662	82,824
Gross profit (loss)	(25,057)	17,216	(25,808)	30,783
Selling, general and administrative expenses	2,896	4,570	6,712	8,386
Impairment of intangibles	37,597		37,597	
Operating profit (loss)	(65,550)	12,646	(70,117)	22,397
Interest expense, net	1	51	4	55
Loss on disposal of business	31,616		31,616	
Income (loss) from discontinued operations before income tax expense (benefit)	(97,167)	12,595	(101,737)	22,342
Income tax expense (benefit)	(31,082)	3,573	(33,093)	6,178
Net income (loss) from discontinued operations, net of tax	$ (66,085)	$ 9,022	$ (68,644)	$ 16,164

(4) Earnings Per Share

Basic earnings per share (EPS) was computed by dividing net income (loss) by the number of weighted average shares of common stock outstanding during the quarters and six months ended June 30, 2012 and July 2, 2011. Diluted EPS was calculated to give effect to all potentially dilutive shares of common stock using the treasury stock method. The reconciliation of basic to diluted weighted average shares outstanding for the quarters and six months ended June 30, 2012 and July 2, 2011 is as follows:

	Quarter Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Basic weighted average shares outstanding	98,572	97,537	98,553	97,366

Effect of potentially dilutive securities:				
Stock options	1,158	1,378	1,110	1,217
Restricted stock units	335	307	298	343
Employee stock purchase plan and other	1	2	1	1
Diluted weighted average shares outstanding	100,066	99,224	99,962	98,927

For the quarters ended June 30, 2012 and July 2, 2011, options to purchase 0 and 6 shares of common stock and 515 and 329 restricted stock units, respectively, were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive. For the six months ended June 30, 2012 and July 2, 2011, options to purchase 0 and 193 shares of common stock and 515 and 0 restricted stock units, respectively, were excluded from the diluted earnings per share calculation because their effect would be anti-dilutive.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

(5) Inventories

Inventories consisted of the following:

	June 30, 2012	December 31, 2011
Raw materials	$ 181,781	$ 231,781
Work in process	129,662	129,827
Finished goods	1,124,407	1,245,947
	$ 1,435,850	$ 1,607,555

(6) Debt

The Company had the following debt at June 30, 2012 and December 31, 2011:

	Interest Rate as of June 30, 2012	Principal Amount June 30, 2012	Principal Amount December 31, 2011	Maturity Date
Revolving Loan Facility	5.50%	$ 15,500	$ 14,500	December 2015
6.375% Senior Notes	6.38%	1,000,000	1,000,000	December 2020
8% Senior Notes	8.00%	500,000	500,000	December 2016
Floating Rate Senior Notes	4.11%	293,277	293,277	December 2014
Accounts Receivable Securitization Facility	1.31%	170,106	166,933	March 2013
		1,978,883	1,974,710	
Less current maturities		318,198	166,933	
		$ 1,660,685	$ 1,807,777	

As of June 30, 2012, the Company had $15,500 outstanding under the $600,000 revolving credit facility (the Revolving Loan Facility) under the senior secured credit facility that it entered into in 2006 and amended and restated in December 2009 (as amended and restated, the 2009 Senior Secured Credit Facility), $10,692 of standby and trade letters of credit issued and outstanding under this facility and $573,808 of borrowing availability.

In July 2012, the Company amended the Revolving Loan Facility to reduce the interest rate and extend the maturity date to (i) July 2017 or (ii) September 2016, if the Company s 8% Senior Notes have not been refinanced or repaid or the maturity date thereof has not otherwise been extended beyond July 2017 by September 2016.

In July 2012, the Company repurchased $148,092 of the Floating Rate Senior Notes at 100% of the principal amount thereof.

In March 2012, the Company amended the accounts receivable securitization facility that it entered into in November 2007 (the Accounts Receivable Securitization Facility). This amendment decreased certain usage fee rates and extended the termination date to March 2013. The Company incurred $225 in debt amendment fees in connection with the amendment, which will be amortized over the term of the facility.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

As of June 30, 2012, the Company was in compliance with all financial covenants under its credit facilities.

(7) Financial Instruments and Risk Management

The Company uses financial instruments to manage its exposures to movements in interest rates, foreign exchange rates and commodity prices. The use of these financial instruments modifies the Company s exposure to these risks with the goal of reducing the risk or cost to the Company. The Company does not use derivatives for trading purposes and is not a party to leveraged derivative contracts.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets. The fair value is based upon either market quotes for actively traded instruments or independent bids for nonexchange traded instruments. The Company formally documents its hedge relationships, including identifying the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivatives that are designated as hedges of specific assets, liabilities, firm commitments or forecasted transactions to the hedged risk. On the date the derivative is entered into, the Company designates the derivative as a fair value hedge, cash flow hedge, net investment hedge or a mark to market hedge, and accounts for the derivative in accordance with its designation. The Company also formally assesses, both at inception and at least quarterly thereafter, whether the derivatives are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer likely to occur, the Company discontinues hedge accounting, and any deferred gains or losses are recorded in the respective measurement period. The Company currently does not have any fair value or net investment hedge instruments.

The Company may be exposed to credit losses in the event of nonperformance by individual counterparties or the entire group of counterparties to the Company s derivative contracts. Risk of nonperformance by counterparties is mitigated by dealing with highly rated counterparties and by diversifying across counterparties.

Cash Flow Hedges

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

Cash Flow Hedges Interest Rate Derivatives

From time to time, the Company uses interest rate cash flow hedges in the form of swaps and caps in order to mitigate the Company s exposure to variability in cash flows for the future interest payments on a designated portion of floating rate debt. The effective portion of interest rate hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying debt interest payments are recognized. Interest rate cash flow hedge derivatives are reported as a component of interest expense and therefore are reported as cash flow from operating activities similar to the manner in which cash interest payments are reported in the Condensed Consolidated Statements of Cash Flows.

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HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

Cash Flow Hedges Foreign Currency Derivatives

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

Historically, the principal currencies hedged by the Company include the Mexican peso, Canadian dollar, Japanese yen and Euro. Forward exchange contracts mature on the anticipated cash requirement date of the hedged transaction, generally within one year. As of June 30, 2012, the notional U.S. dollar equivalent of commitments to sell foreign currencies in the Company s foreign currency cash flow hedge derivative portfolio was $26,651.

Cash Flow Hedges Commodity Derivatives

Cotton is the primary raw material used to manufacture many of the Company s products and is purchased at market prices. The Company is able to lock in the cost of cotton reflected in the price it pays for yarn from its primary yarn suppliers in an attempt to protect its business from the volatility of the market price of cotton. In addition, from time to time, the Company uses commodity financial instruments to hedge the price of cotton, for which there is a high correlation between the hedged item and the hedge instrument. Gains and losses on these contracts are intended to offset losses and gains on the hedged transactions in an effort to reduce the earnings volatility resulting from fluctuating commodity prices. The effective portion of commodity hedge gains and losses deferred in Accumulated other comprehensive loss is reclassified into earnings as the underlying inventory is sold, using historical inventory turnover rates. The settlement of commodity derivative contracts related to the purchase of inventory is reported in the Condensed Consolidated Statements of Cash Flows as cash flow from operating activities. There were no amounts outstanding under cotton futures or cotton option contracts at June 30, 2012 and December 31, 2011.

Mark to Market Hedges

A derivative used as a hedging instrument whose change in fair value is recognized to act as an economic hedge against changes in the values of the hedged item is designated a mark to market hedge.

Mark to Market Hedges Intercompany Foreign Exchange Transactions

The Company uses foreign exchange derivative contracts to reduce the impact of foreign exchange fluctuations on anticipated intercompany purchase and lending transactions denominated in foreign currencies. Foreign exchange derivative contracts are recorded as mark to market hedges when the hedged item is a recorded asset or liability that is revalued in each accounting period. Mark to market hedge derivatives relating to intercompany foreign exchange contracts are reported in the Condensed Consolidated Statements of Cash Flows as cash flow from operating activities. As of June 30, 2012, the notional U.S. dollar equivalent of commitments to purchase and sell foreign currencies in the Company s foreign currency mark to market hedge derivative portfolio was $2,700 and $44,907, respectively.

HANESBRANDS INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

(unaudited)

Fair Values of Derivative Instruments

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

	Balance Sheet Location	Fair Value June 30, 2012	Fair Value December 31, 2011
Derivative assets hedges			
Foreign exchange contracts	Other current assets	$ 416	$ 3,205
Total derivative assets hedges		416	3,205
Derivative assets non-hedges			
Foreign exchange contracts	Other current assets	174	455
Total derivative assets	&nbs		