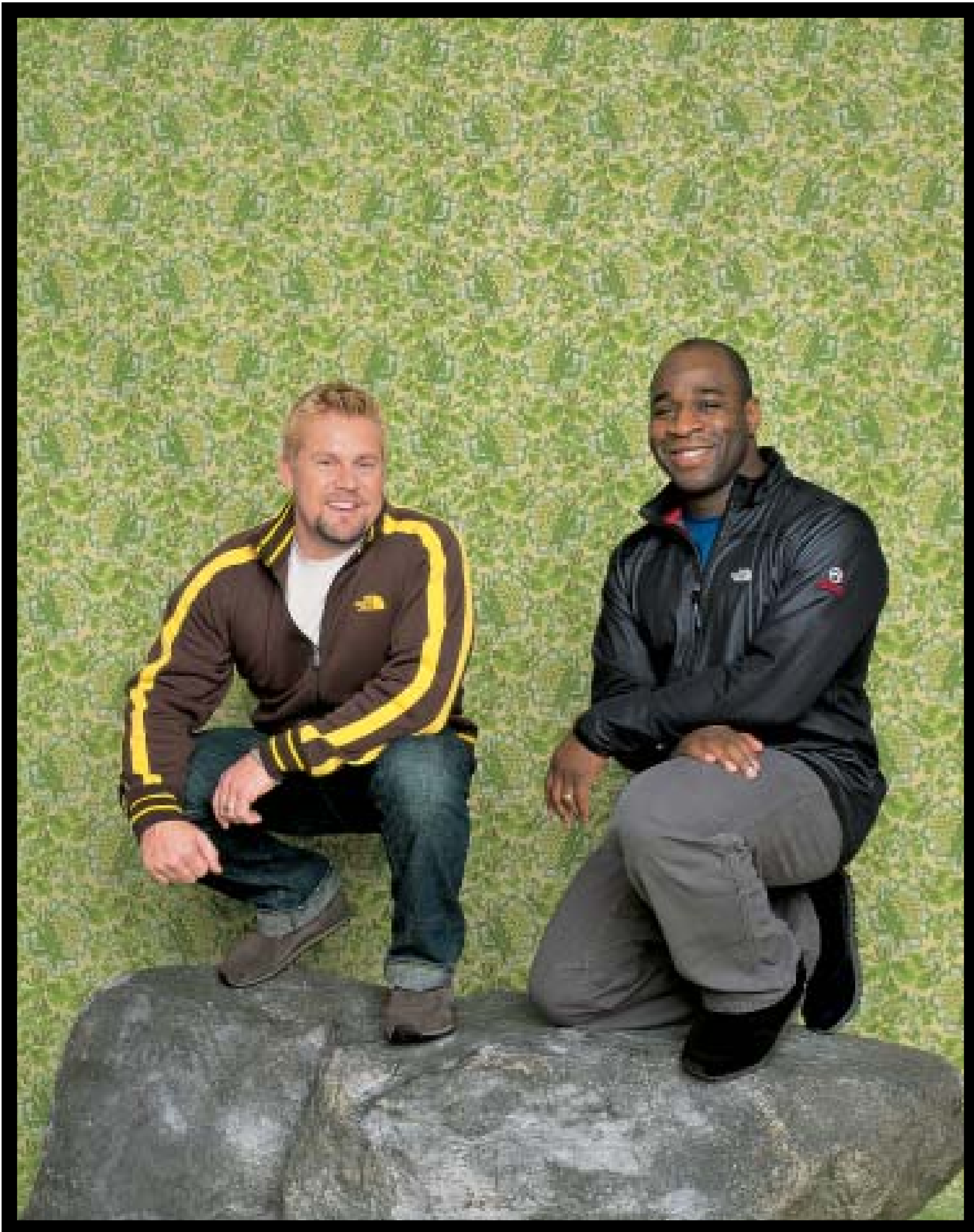


living the brand *VF Corporation 2004 Annual Report*

vf is about people. Our people. And our consumers. In fact, one of the reasons we're so successful is because we're a reflection of our consumers. Like them, we're dreamers, rebels, adventurers, teachers and inventors. From our stockrooms to our boardroom, we live our brands.

2004 financial highlights

Dollars in thousands, except per share amounts		2004		2003		2002
summary of operations						
Net sales	$	6,054,536	$	5,207,459	$	5,083,523
Operating income		777,788		644,889		621,924
Operating margin		12.8%		12.4%		12.2%
Income from continuing operations	$	474,702	$	397,933	$	364,428
*Net income (loss)**		474,702		397,933		(154,543)
Return on capital (continuing operations)		15.8%		16.6%		16.9%
financial position						
Working capital	$	1,006,354	$	1,419,281	$	1,199,696
Current ratio		1.7 to 1		2.8 to 1		2.4 to 1
Cash flow from operations	$	730,256	$	543,704	$	645,584
Debt to capital ratio		28.5%		33.7%		28.6%
Common stockholders' equity	$	2,513,241	$	1,951,307	$	1,657,848
per common share						
Income from continuing operations – diluted	$	4.21	$	3.61	$	3.24
*Net income (loss) – diluted**		4.21		3.61		(1.38)
Dividends		1.05		1.01		.97
Book value		22.56		18.04		15.28

* Net income (loss) and related per share amounts include operating results of discontinued operations and the cumulative effect of a change in accounting policy in 2002. See details in the accompanying consolidated financial statements.

barbara nardini-zitella *Sales Account Executive, Wrangler & Lee Brands Canada*
A Banner Year: 2004 was definitely the most energizing year in my 25-year career. The success of Lee in Canada has been overwhelming and I'm very proud to have been part of it. brian williams *VP, Wrangler & Lee Brands Canada & Puerto Rico*
2005 and Beyond: We have aggressive plans to fuel growth with exciting initiatives for the retail community and great products for consumers.

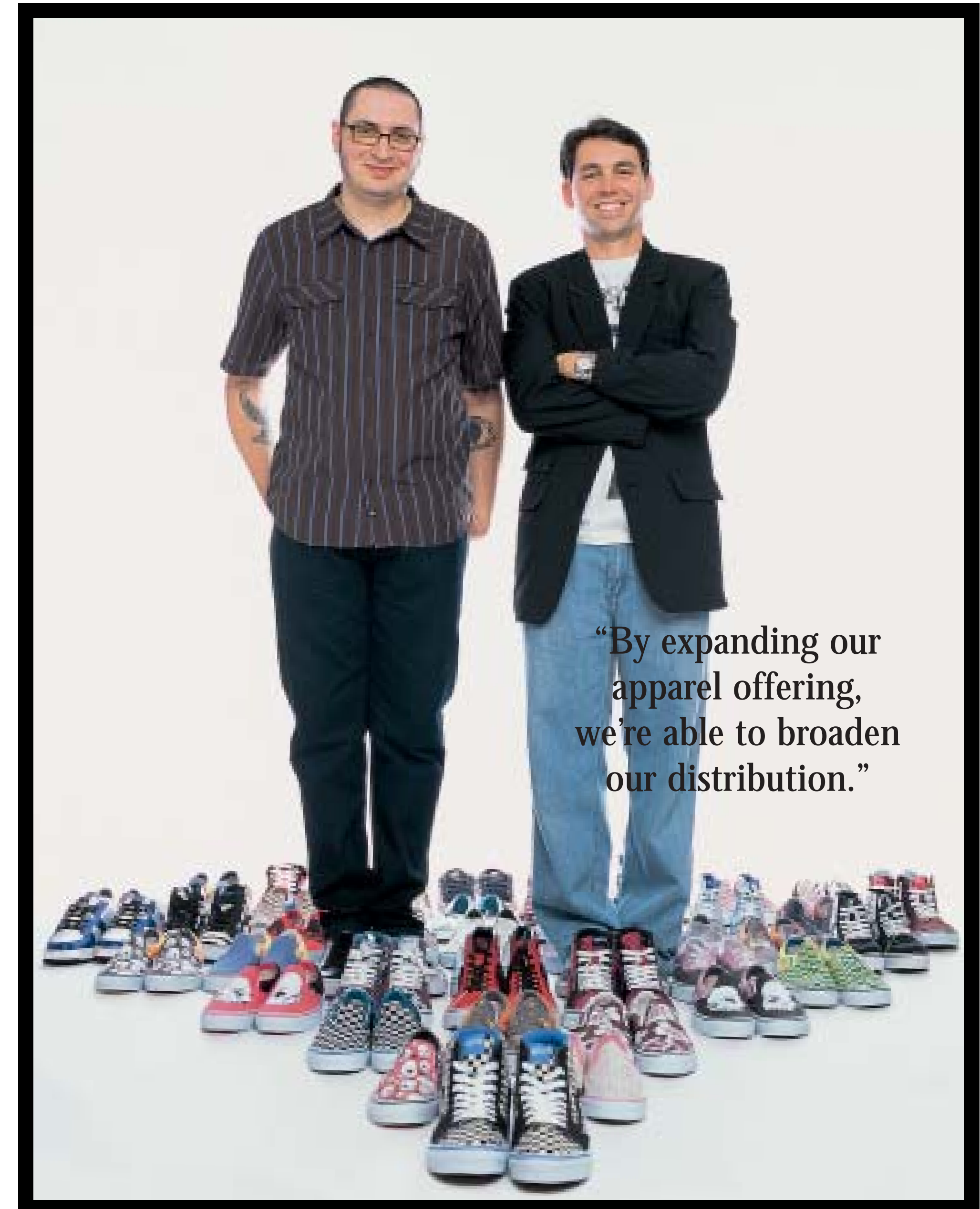
We bring our brands to life. Everyday. We infuse them with vitality and relevance. And more importantly, we make them grow. Through constant re-invention. Through improved business systems. Through strikingly innovative strategies.

We realized long ago that we don't fill orders so much as we fulfill dreams. We speak to the cowboy trapped inside all of us. The adventurer we secretly wish to be. We're the hopelessly romantic and the adamantly free-spirited. We're the sports fan and the outdoor fanatic… the businessman who rock climbs and the skateboarder who's a natural salesman. We're our brands.

And we live them to the fullest.

gareth anderson *Manager, Lee London Store* *Recently Achieved Goal:* Our store exceeded its targets for 2004 by 30%. *Result:* We have built a loyal customer base and shoppers tell us that the Lee store is their favorite store for denim. *Reason for Success:* We set ourselves apart from the competition by providing an exceptionally high level of service.

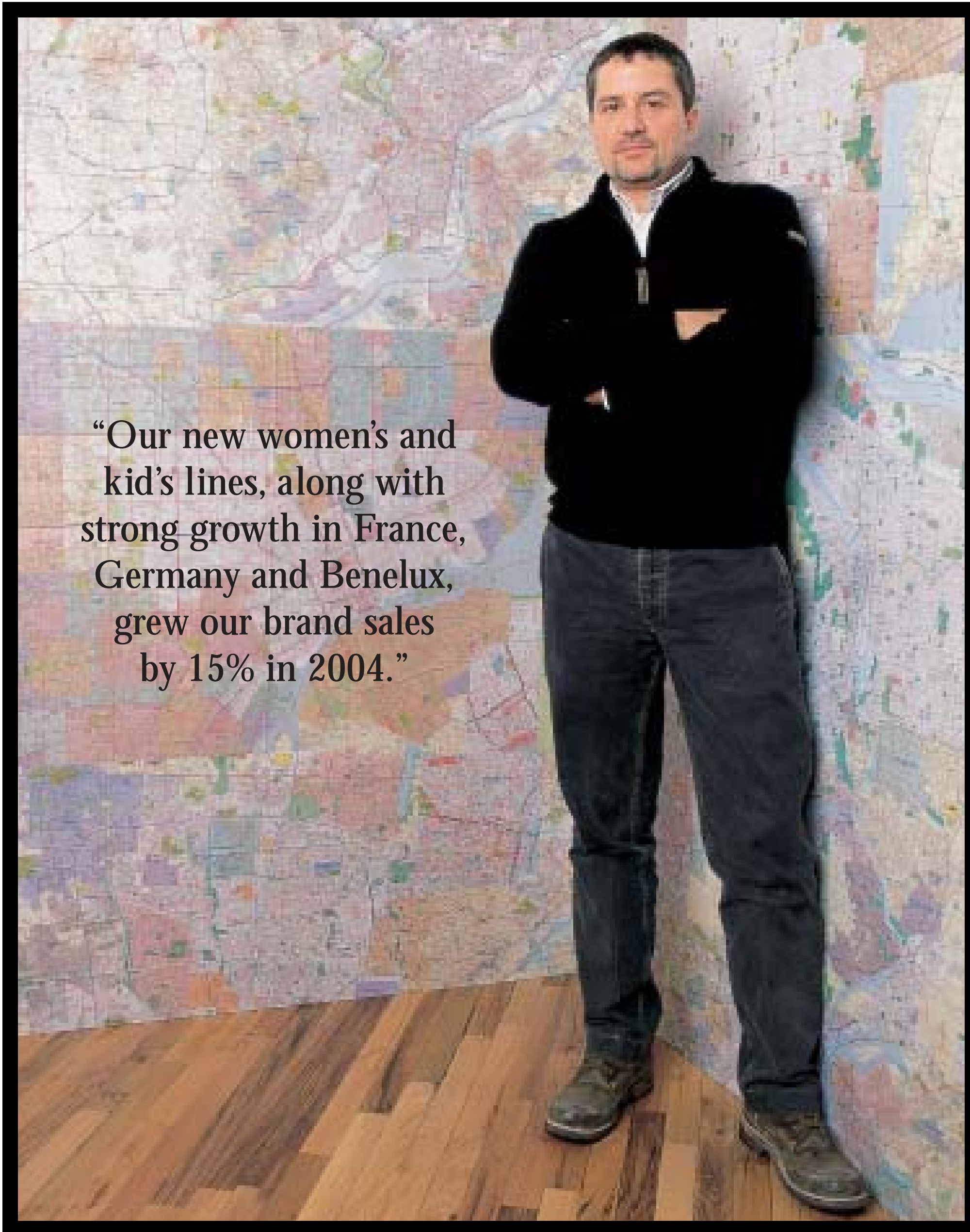
gilles laumonier *VP, RD&D and Marketing, Eastpak, JanSport and Kipling* *Variety is the Spice of Life:* In 2004 we diversified our *Eastpak®* brand assortment and doubled our sales in shoulder bags. *What a Month:* In June we added Kipling to our division, which added around $40 million to sales in 2004. *Next Move:* In 2005 we're launching a complete *Eastpak®* branded apparel collection. It should become a major growth engine for us.



ken bustamante (L) *Senior Graphic Designer, Vans Apparel* *Greatest Strength:* Being able to manage multiple classifications within several categories while taking direction from multiple sources and still being able to meet expectations. todd dalhausser *Senior Director, Vans Apparel* *Show me the money:* Our apparel team transformed a struggling division into a profitable business. *How:* Extremely talented people in design, merchandising and buying. *By How Much:* We increased our sales by 35% over 2003.

jeremy turner (L) *Group Manager, Imagewear Global Accounts* *Uniform Salute:* Last year we won the new uniform rollout for U.S. Customs & Border Protection when they reorganized within Homeland Security. neal waters *Senior Sales Executive, Imagewear Global Accounts* *Public Safety Sector Customer Recognition:* Receiving the first ever Partnership Award from the Transportation Security Administration for creating uniforms for over 50,000 airport screeners in just six months.

mike deyoung *Creative Director, JanSport Custom Products* *Madness:* Finding crazy new ways to inspire my team to take risks. *Method:* Making sure individual contribution is always recognized in the "success story." *Result:* Our graphic designs helped to further establish JanSport as a recognized resource for alternative fashion. bonnie mueller *VP, Collegiate Sales, JanSport Custom Products* *Greatest Strength:* The commitment and willingness to do whatever it takes to get the job done. *Biggest Concern:* If I don't do my job well, I risk many other people's jobs.

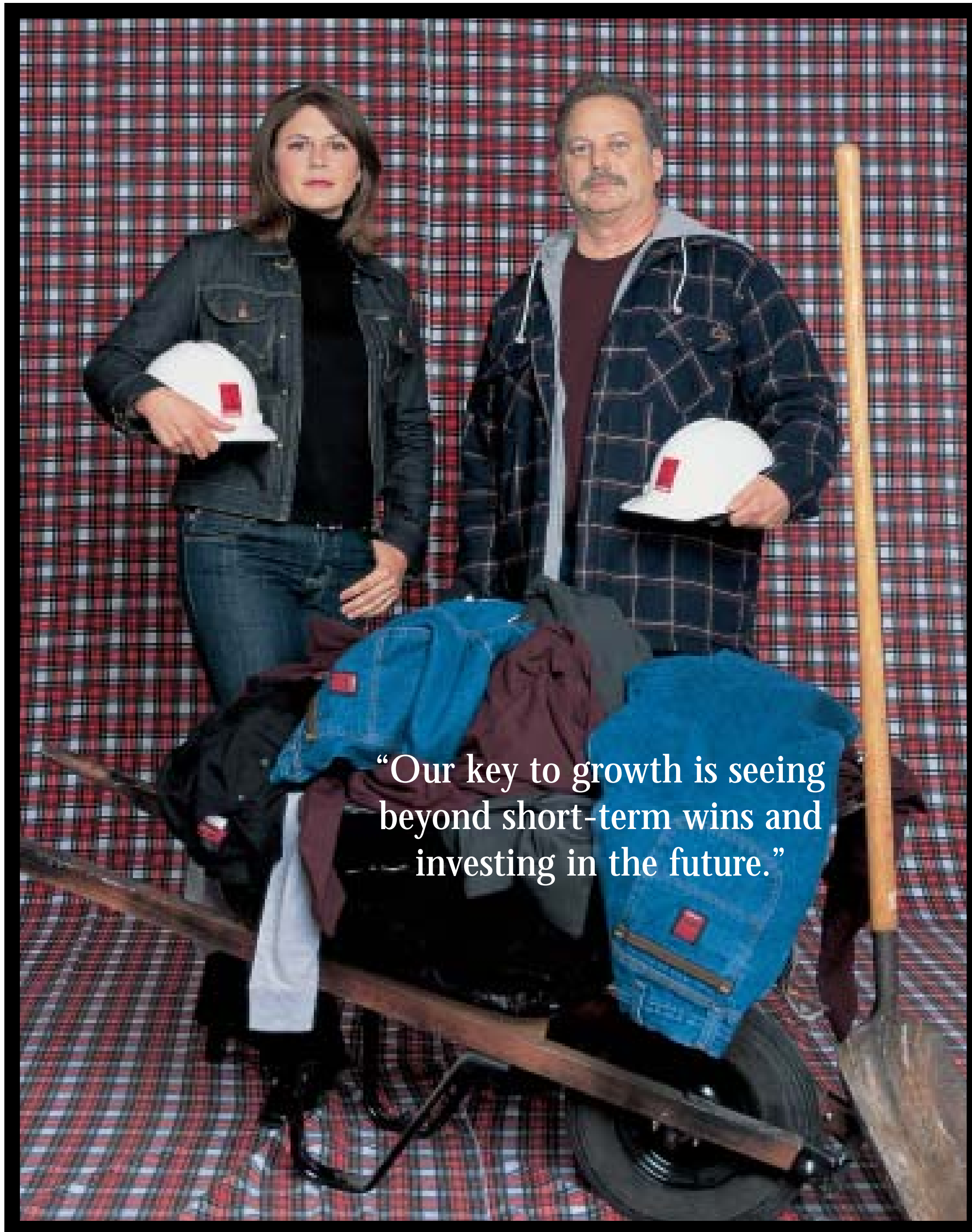


"Our new women's and kid's lines, along with strong growth in France, Germany and Benelux, grew our brand sales by 15% in 2004."

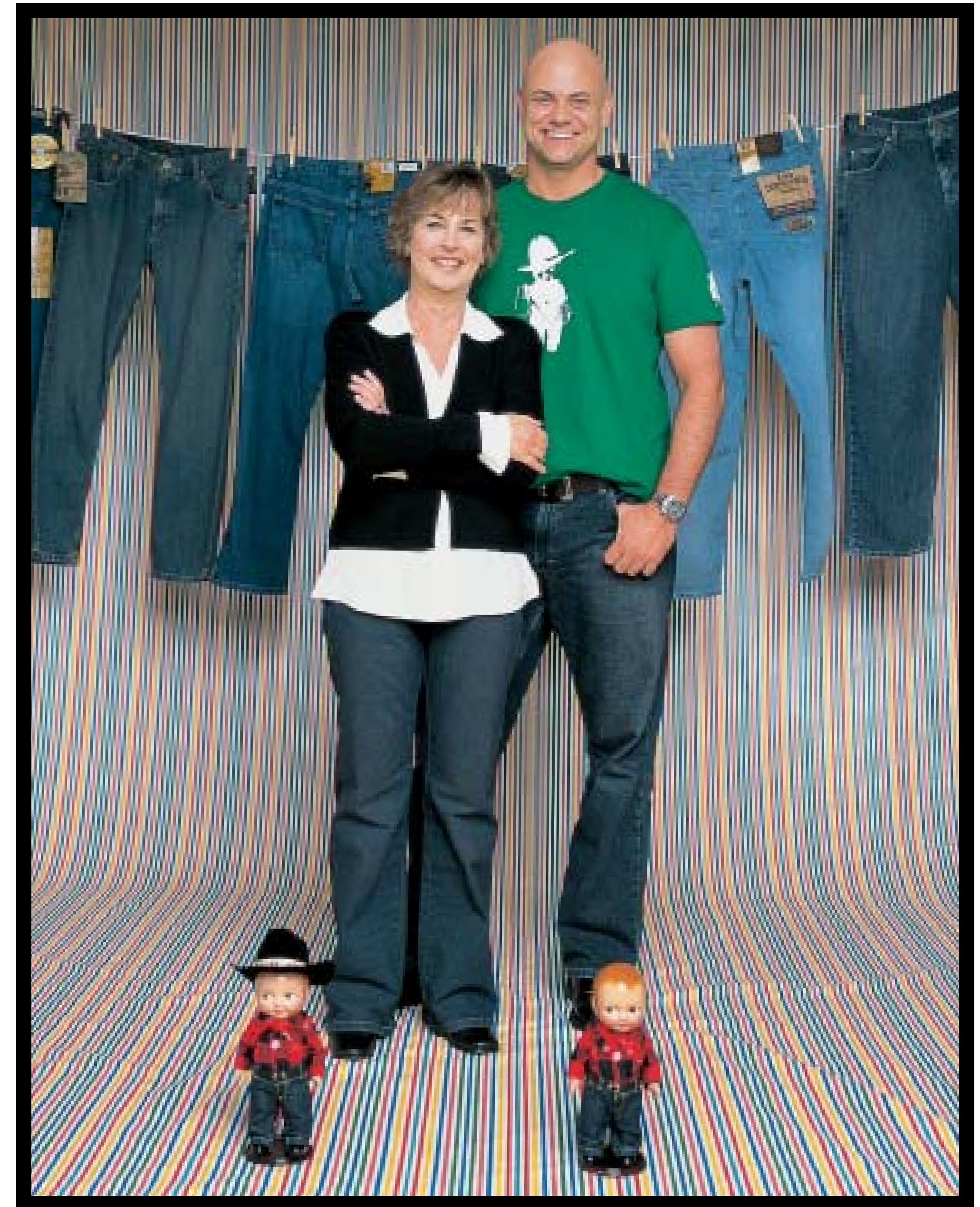
massimiliano tosi *Sales & Marketing Director, Napapijri* *Most Important Mission:* Maximizing sales through brand integrity. *Standard Operating Procedure:* Maintaining a clear vision and transmitting it to the whole team. *VF's Most Admirable Quality:* Its great respect for people. *Key to Success:* Having the right people, with the right attitude, in the right places. *Personal Fairy Tale:* Napapijri has always been my dream company, and dreams come true here.

In memory of Sandy K. Kurilchyk 1948 – 2005.

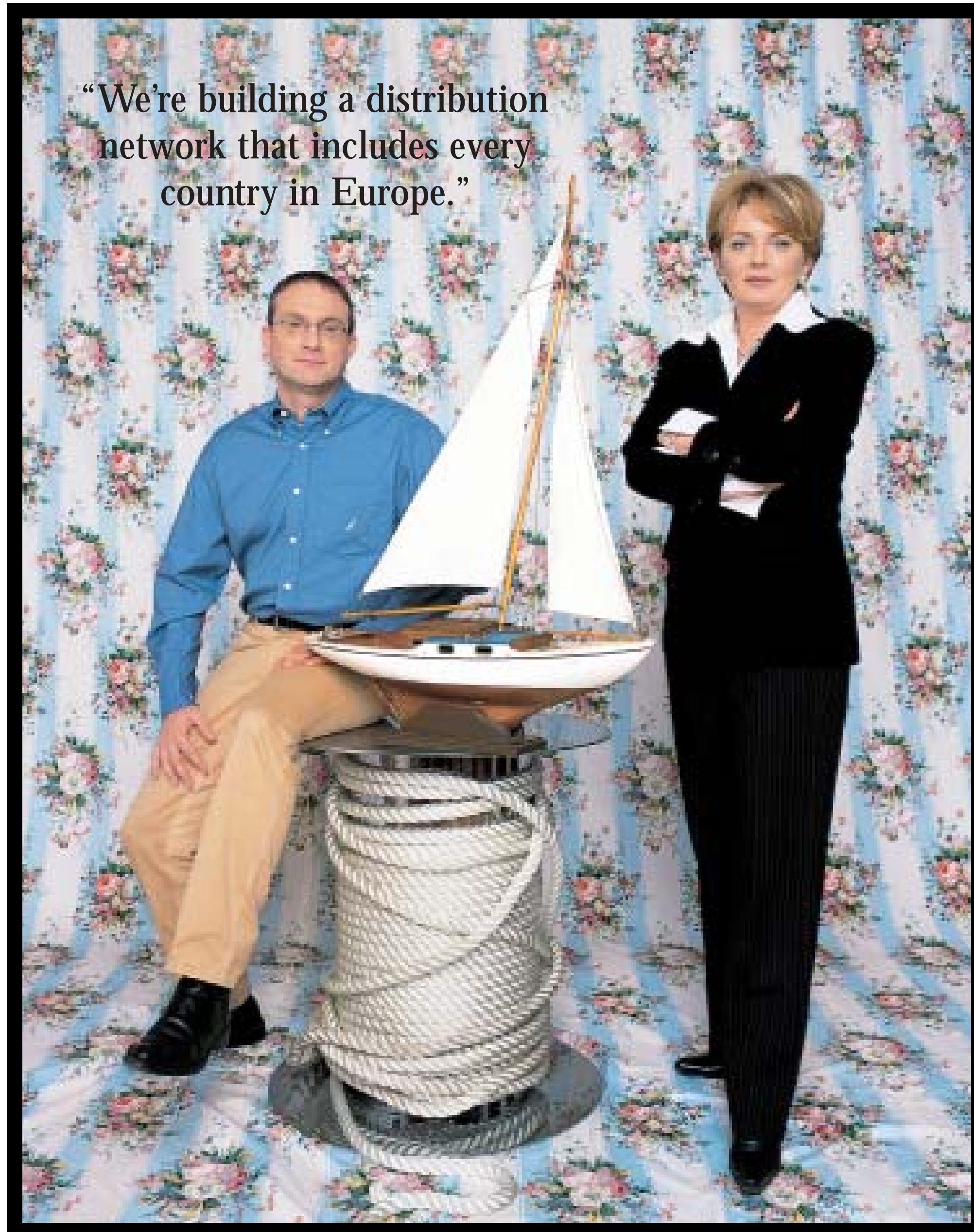
julie kurutz (L) *Sales Representative, Wrangler, VF Jeanswear* *Star Performer:* My role is to be the "face" of *Wrangler®* jeans to my accounts. *Audience Reaction:* Now they see us as cutting edge and market right, and as the best replenishers out there. pamela o'donnell *Merchandising Associate, Aura from the Women at Wrangler, VF Jeanswear* *Proud Moment:* Our very successful launch of the *Aura from the Women at Wrangler™* line. *Beautiful Aura:* Women were leaving our western stores and finding other places to buy jeans. We've brought that customer back, along with women who have never shopped in a western store.



victoria kearns *Manager, Marketing Communications, Wrangler Specialty Apparel, VF Jeanswear* *What Makes Her Day:* Working with an enthusiastic team that thinks outside of traditional comfort zones. *What Her Work Has Wrought:* Sales of *Riggs Workwear™ by Wrangler®* apparel grew 71% in 2004. jeff isom *Merchandise Manager, Outdoor Brands, VF Jeanswear* *Brand Aid:* My job is to protect and strengthen the value of our brands. *Knock, Knock:* We expanded distribution from 1,100 doors to over 2,500.



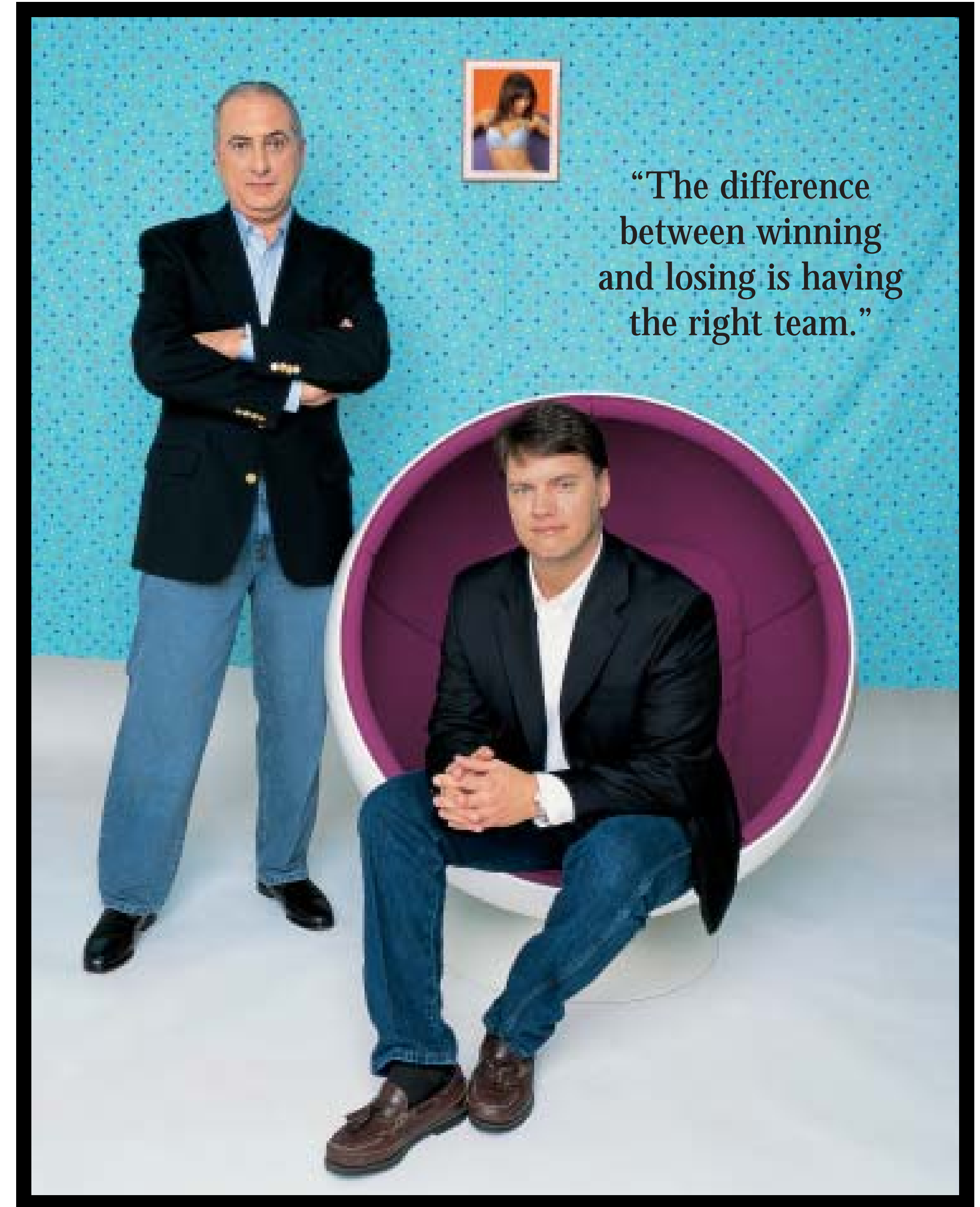
marcia wilcox *VP/GM Men's and Boy's, Lee Jeans* *Expanding Jeans:* Despite a very difficult retail environment, we've seen five continuous years of growth in our men's denim business. *How: Lee® Dungarees* led the way. *Lesson Learned:* A great product cures many ills! joe bugni *Senior Product Manager, Men's Denim, Lee Jeans* *Daily Challenge:* Keeping everyone focused on the same strategy. *Brightest Moment:* Receiving a Lee Presidential Award for Unstoppable Spirit. *Unstoppable Praise:* I admire our employees and the many years of service they have given to this company.



paolo de marco *VP, General Manager, Nautica Europe* *Immediate Goal:* To create a motivated and efficient team to bring success in Europe for this great American brand. *Lifelong Goal:* Never stop learning. patricia canavan *VP, International Licensing, Nautica Apparel* *Formula for Growth:* Individual brand initiatives can be maximized when linked to VF's corporate strategy. *East Meets Quest:* The brand distribution model we implemented in China doubled our licensed business there in 2004. *What's Next:* Launching in India.

chris fuentes (L) *VP, Marketing, Nautica* *Aspect of Company Culture He Most Admires:* Its quiet strength and determination. *Aspect of Himself He Most Admires:* My passion for winning as a team. christopher heyn *President, Nautica International, Nautica Jeans Company, Nautica Children's Company* *Chris At a Glance:* High energy, passionate and compassionate. *Competitive Edge:* Maintaining a self-sharpening environment, staying ahead of the creative process and continuing to grow the brand. *Method to His Madness:* Identify the problem, create the solution and demand the resolution.

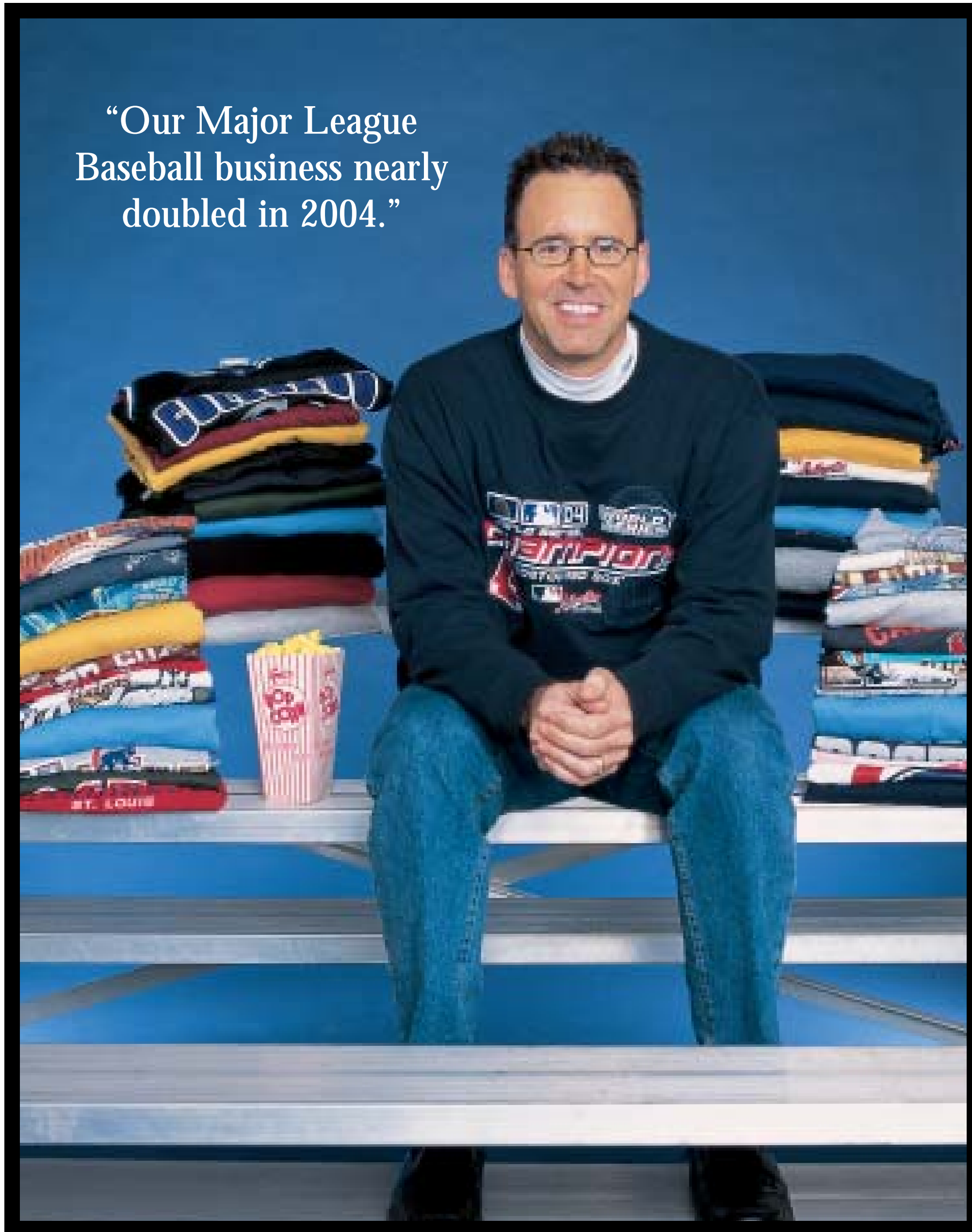
berna goldstein *Director of Merchandising, Bestform & Curvation, VF Intimates* *How Berna Sees Her Job:* A merchandiser is really the hub of a wheel. *How Berna Thinks:* "What if" instead of business as usual. *Upward Curve:* Not only did we expand our assortment for the *Curvation®* brand, we were also able to raise our retail price points. ray nadeau *VP, General Manager, Bestform & Curvation, VF Intimates* *A Typical Ray Day:* Focusing on the priorities that drive growth. *A Ray of Understanding:* My strength is knowing our consumer and retailer needs, and finding "white space" opportunities.



art decesaro (L) *VP, General Manager, Vassarette, VF Intimates* *Personal Compulsion:* Staying Number One. *Method:* By thinking outside of the box in both product innovation and marketing. *Outside the Box Idea:* Our introduction and sponsorship of the first female NASCAR race driver in the truck series. miles bohannan *Director of Marketing, Vassarette, VF Intimates* *Part of the Job:* Staying at the top of my game despite competitive pressure. *Top Two Qualities:* Open-mindedness and tenacity. *Keeping Growth on Track:* We initiated a focused direct mail piece aimed at Hispanic consumers.

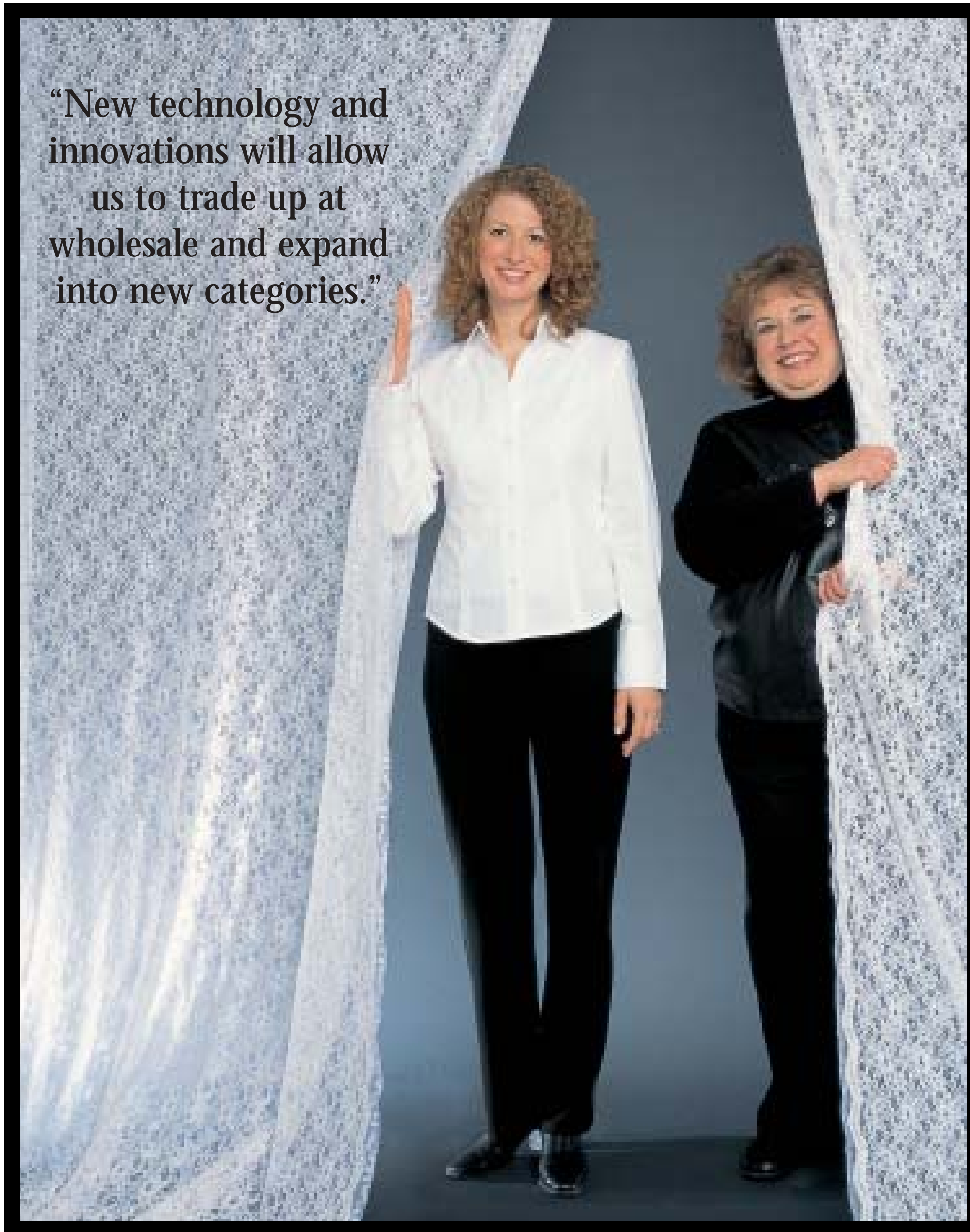
anne jardine *VP, Business Development, VF Intimates* *Reason for Being:* To inspire our team to deliver on our goals over the next five years. *Contribution to the Bottom Line:* Helping to grow our U.S. business in 2004. *Skill She's Most Proud of:* The ability to see our potential and get others to see what I see.

gloria lee-cook (L) *Director of Operations, Mass Market Female, VF Jeanswear* *Turning Copper into Gold:* We launched the *Coppercollection*™ contemporary jeans line within the *Riders*® brand. It has created a new platform for growth for 2005 and beyond. seena cox *Merchandise Manager, Riders Female, VF Jeanswear* *Rate of Success:* We grew sales at a double-digit rate in 2004. *Secret of Success:* We understand our consumer and spend a lot of time listening to her.



steve eaves *Major League Baseball Brand Manager, Licensed Apparel, VF Imagewear* *Relationship to Management:* There's a true open-door policy from senior management that's rare in the corporate world. *Bragging Rights:* We're recognized for maintaining the highest standard of excellence in the industry, bar none.

georgia grant *VP, Kipling U.S.* *Ongoing Challenge:* Developing patience. *Most Refreshing Aspect of Company:* VF has fantastic communication between its departments and companies. *Best New Policy:* Established a "never out" core program. *Key to Growth:* The ability to plan 12 to 18 months ahead, then execute the plan, while forging strong retail partnerships.

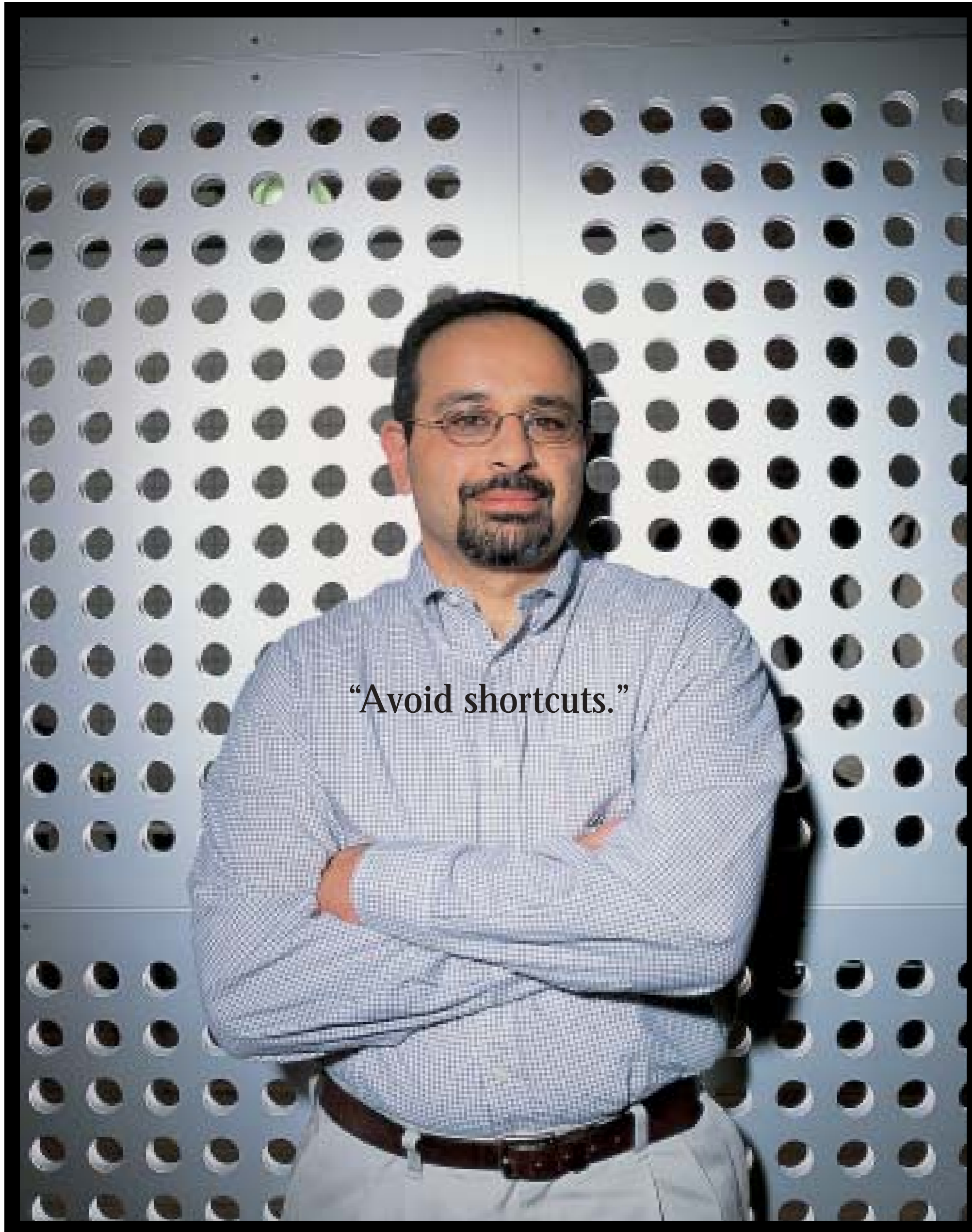


shelli roach (L) *Product Merchandise Manager, VF Intimates* *Intimate Relationship:* Our consumer has told us the *Vanity Fair®* brand has strong equity with her, and has given us permission to build the brand into new categories. *Waiting to Exhale:* The fall 2005 delivery of our new *Body Breathe™* collection will be an important extension for the *Vanity Fair®* brand. christine kitson *Director of Product Merchandising, Vanity Fair & Lily of France, VF Intimates* *The Nonstop Challenge:* Developing innovative, differentiated products. *A Leg Up:* Sales of our *Vanity Fair®* pants business grew by more than 20% in 2004.

liz cahill (L) *Director of Advertising & Public Relations, Lee Jeans* *Now Hear This:* I believe *Lee®* is the best brand and I work hard every day to let anyone and everyone know it! *Watch This:* Our marketing for Lee Misses reached its target with a powerful "your own style of sexy" message. mary kent *Lee Misses Senior Product Manager, Lee Jeans* *Personal High:* Being part of the group of Lee women who created the *Lee National Denim Day®* event. *This Year's High:* The *Lee® Ultimate 5™* jean was one of our most successful launches ever. *Highlights:* We will be introducing ringspun denims and premium finishing techniques.

craig errington (L) *Director of Advertising, PR & Special Events, Mass Market, VF Jeanswear* *Career Obsession:* Always trying to come up with fresh ways to get consumers to put down the jeans they've been wearing and pick up a pair of ours. *This Year's High:* Reuniting the *Wrangler®* brand with the Earnhardt family and showcasing Dale Jr. as the face of "a new generation of *Wrangler®*." tom waldron *Senior Merchandise Manager, Mass Market, VF Jeanswear* *What's the Latest:* The launch of *Wrangler Jeans Co.™* *What's the Greatest:* Working with our retail partners to drive growth through our portfolio of brands.

christopher "topher" gaylord *Managing Director, The North Face International* *Record Executive:* We've seen seven consecutive record seasons, 15 consecutive record quarters, and 45 consecutive record months of sales growth. *Plan of Action:* To leverage the great operational strengths of one of the largest apparel companies in the world and apply them to our entrepreneurial-based growth strategy. *Life Plan:* Growth is an approach to life that goes beyond work. It's a curiosity to learn more and push yourself and your team beyond your perceived boundaries and limits into the unknown.

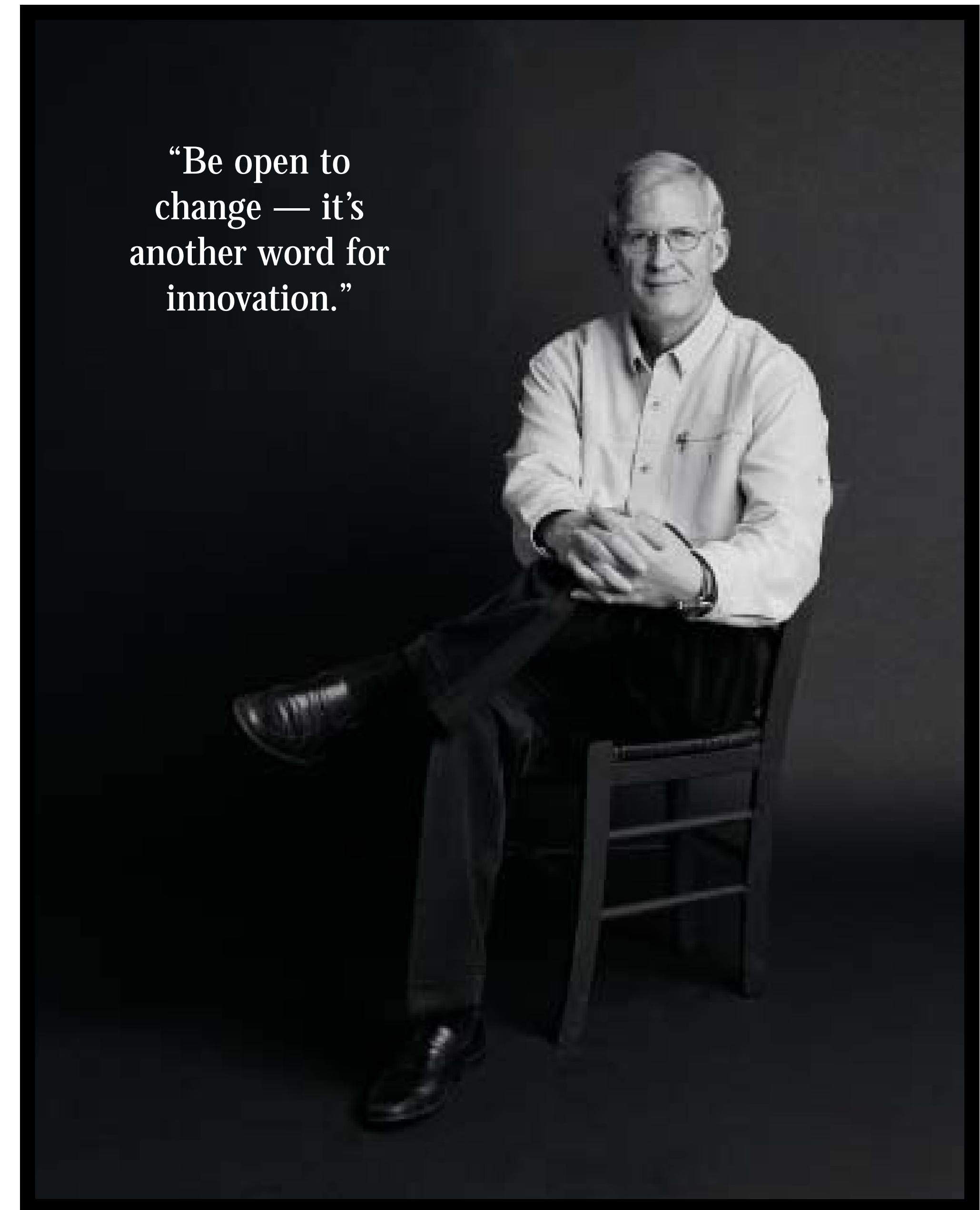


sam rofail *Director, Retail Floor Space Management & Flow Replenishment Systems, VF Services, Sales Chain* *Sam the Man:* I identify ways to help our people grow their business through the use of technology and business process improvements. *The Point of Point-of-Sale:* We're extending our data warehouse by adding consumer demographic information by retail location. This will enable us to not only understand what is selling at retail, but also who is buying it. *Internet Sam:* We've implemented a system that allows us to automate the retrieval of data from retailer websites, which we ultimately incorporate into our sales planning tools.

jake rivas (L) *Design Director, The North Face Footwear RD&D* *On Juggling Four Balls:* To succeed, you've got to strike a balance between innovation, aesthetics, function and brand correctness. *Big Shoes to Fill:* Our fall 2004 bookings grew by 117%, and our spring 2005 bookings grew by 80%. johnny hawthorne *Sales Director, The North Face Footwear* *Most Novel Part of the Job:* Teaching non-footwear people the footwear business. *Why We're a Step Ahead:* We're providing technically superior products. *Best Practices:* Providing the sales team powerful tools, then getting out of their way.

to our stockholders:

Last year at this time, we talked about our expectations for another record year in 2004, and projected a 5% increase in both sales and earnings. I'm pleased to report that we had a banner year, substantially exceeding those projections. In 2004 sales jumped 16%, topping the $6 billion mark for the first time in VF's history. Earnings increased 17% to a record $4.21 per share. Sales benefited from growth across most of our core businesses, plus the addition of three terrific new brands: *Vans*®, *Napapijri*® and *Kipling*®.



mackey j. mcdonald *Chairman, President and Chief Executive Officer*

Despite this acquisition activity, we ended the year with our balance sheet in great shape and with very strong cash flow. Debt as a percentage of total capital was 28%, and cash flow from operations reached $730 million.

We paid out 25% of our earnings in dividends and increased the dividends paid to shareholders for the 32nd consecutive year. All of this resulted in a good year for our stockholders: VF's share price rose 28% in 2004 versus an increase of 9% for the S&P 500.

2004 marked the first year of our Company's ambitious new growth plan, which was the result of many months of hard work and analysis by scores of people both within and outside VF. Following several years of restructuring, business divestitures and relatively flat sales performance, it was time to take a new and more aggressive approach toward stimulating top line growth. That approach is already paying off, and we expect to continue the momentum this year.

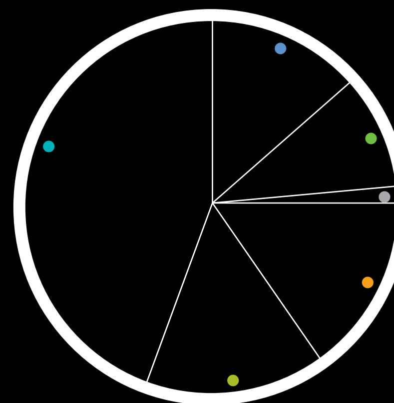
In the course of developing this plan, we created and launched a new Vision Statement that heralds our commitment to growth and serves as a rallying point for all our associates and businesses. To wit: *VF will grow by building leading lifestyle brands that excite consumers around the world.* That says a lot in just a few words, but first and foremost, it states our commitment to growth. Our industry is consolidating and so are our customers. We intend to be an active participant in this process by adding brands and capabilities that will ensure that we remain vital to our customers and our consumers. The focus of our growth will be lifestyle brands — brands that through their products and positioning make a powerful statement about the aspirations, activities and interests of consumers. We also recognize that in order to grow, our brands must excite consumers through product innovation, quality, functionality and value. In short, consumers get excited about a brand when it makes them feel better about the lives they lead. And of course, as a global company, we're always looking to build great brands that have a truly global reach.

The strategic foundation of our growth plan consists of five key drivers. Our intense focus on these drivers resulted in a number of significant accomplishments in 2004.

Build New Growing Lifestyle Brands Our goal is to generate 8% sales growth annually, through growth in our core categories as well as through the addition of new lifestyle brands. In 2004 we saw a 9% sales gain in our Intimates coalition. Sales in our Imagewear coalition grew 6%, while Jeanswear coalition sales were about even with prior year levels. These businesses provide us with a powerful foundation: not only do they comprise leading brands and businesses in their categories, they are very stable and profitable, generating tremendous cash flow that is essential to increasing shareholder value. As we look to grow our category-driven brands, it will be in the context of extending them into additional product categories, new consumer segments and new geographic areas.

The biggest area of growth for us in 2004 was our Outdoor coalition, which achieved a sales gain of 73%. *The North Face®* brand had a stellar year, with sales up 38%. It was also an exceptionally busy year on the acquisition

sales by business coalitions



vf coalitions: ● Jeanswear ● Intimate Apparel ● Outdoor ● Sportswear ● Imagewear ● Other

VF is one of the most diversified apparel companies in the world. Our broad base of brands allows us to reach consumers in nearly every channel of distribution, including department, chain, mass market and specialty stores. We're global in scope, with 23% of sales coming from international markets.

front for our Outdoor team, with the addition of three companies that had total annualized sales of $489 million at the time of purchase. Based in Southern California, *Vans®* is an authentic action sports shoe brand. *Napapijri®* is a premium European outdoor apparel brand, and *Kipling®* is a fun and fashionable brand of bags and accessories for women. Each acquisition fulfills all of our primary acquisition criteria:

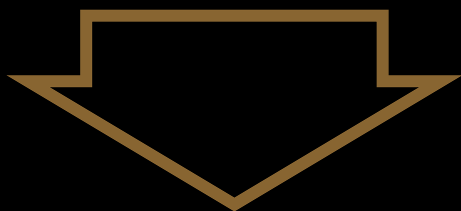
- A strong brand with room to grow
- Adds a new category or consumer
- Strengthens our product or channel presence
- Has global reach
- Enjoys distinctive brand positioning
- Has the potential to reach our financial targets
- Is quickly accretive to earnings

Sportswear contributed $605 million to sales in 2004, reflecting a full year's contribution from the acquisition of Nautica in mid-2003. The *Nautica®* brand is performing above our expectations, and we're extremely pleased with the results we're seeing from our work to reposition the brand and improve our product offerings.

Expand our Share with Winning Customers Our big customers are getting bigger, and we need to partner with them in a different way in order to continue to grow our share of their business. In 2004 we added the talent and resources to spearhead the creation of a new customer team organization that is leveraging and coordinating our efforts across VF's brands and coalitions. We're also investing more to analyze our customers' businesses to help us identify new opportunities for mutual growth.

Stretch our Brands & Customers to New Geographies The focus internationally is, first and foremost, to build our brands into truly

lifestyle



category

lifestyle: The focus of our growth will be lifestyle brands — brands that through their products and positioning make a powerful statement about the aspirations, activities and interests of consumers.

category: As we look to grow our category-driven brands, it will be in the context of extending them into additional product categories, new consumer segments and new geographic areas.

global brands. We'll also continue to add brands that extend our reach into new markets and categories. The *Napapijri®* and *Kipling®* brands are excellent examples of this. Not only do they strengthen our position in Europe, they also offer significant expansion potential in North America and Asia. The *Nautica®* brand is another good example. Using some of the talent and infrastructure supporting our jeanswear and outdoor brands, we're looking forward to launching the *Nautica®* brand in Europe in 2006. Two other accomplishments in 2004 were the establishment of a joint venture in Mexico for our Intimates coalition and the launch of our jeans brands in Russia. Looking forward, we are also looking toward big, underpenetrated and fast-growing markets, such as Asia and India, to roll out additional brands and categories.

Fuel the Growth Our goal is to leverage VF's supply chain to create the most efficient platform for growth, including the integration of acquisitions. We have identified opportunities in areas such as commodity procurement, global sourcing, distribution, inventory management and technology that we expect to yield $100 million in savings over the next five years. These savings will provide us with increased flexibility to invest more behind our brands and our future growth while maintaining strong, healthy margins.

Build New Growth Enablers The success of our growth plan will be largely dependent on the resources we put behind it. Our most important resource is our people, and we have recently added top talent in areas such as strategic planning, customer teams and acquisitions. We are also making certain we have the human resources in place to identify and develop VF's future leaders.

We invested heavily in our growth plan in 2004, spending $40 million against a variety of brand marketing programs, customer team initiatives and supply chain projects. We'll continue to invest in these areas in 2005, using some of the savings we expect to generate from our "fuel the growth" programs.

This is a tremendously exciting time for VF. We clearly have momentum. And we have great people who are passionate about continuing that momentum. We're looking for another record year in 2005, and we're putting new energy behind many of our core brands to jumpstart their growth in the years to come. We'll also be working to exploit the growth potential of our new businesses while taking advantage of our great systems and processes to improve their profitability. We'll continue to scan the market for additional brands that meet our strategic and financial criteria — while prudently managing our balance sheet. All in all, we are confident that we can continue to generate excellent value for our stockholders.

mackey j. mcdonald
Chairman, President and
Chief Executive Officer

jeanswear With a portfolio that includes the *Wrangler®*, *Lee®*, *Riders®*, *Rustler®* and *Earl Jean®* brands, we have the pulse of jeans consumers around the world.

In fact, we sell more pairs of jeans than any other company in the world. Fashion trends come and go, but the jeans market continues to prove remarkably stable and resilient. Growth comes to those brands that define their consumers' lifestyles, offering the right combination of authenticity, innovation and value.

Our jeans business had a good year in 2004. Sales were about even with prior year levels, but profitability improved nicely. We have our share of challenges — retail consolidation, pricing pressure, the rise of specialty brands and private label programs — but our unrelenting focus on understanding our consumers continues to keep us ahead of the pack.

Room to Grow in the U.S. With our *Wrangler®*, *Riders®* and *Rustler®* brands, we are the market share leaders in both the men's and women's branded jeans categories in mass market stores.

The highlight of the year for our *Wrangler®* brand was the successful launch of our *Wrangler Jeans Co.™* initiative in partnership with NASCAR driver Dale Earnhardt, Jr. The new line, which is targeted to a younger, more fashion-conscious male consumer, is the official jean of Earnhardt Jr. and his #8 racing team. We'll continue to build on the line in 2005 with the launch of a new premium shirt program. Our *Wrangler Hero®* brand also benefited from the expansion of our Five Star premium denim program into additional fits and styles. Here, too, we expect continued momentum from a new lead product called *Wrangler®* Ultra Tough and growth in our premium khakis program. We capped

2004 with the introduction of a new licensed line of home furnishings. The *Wrangler Home™* collection features case goods, upholstered furniture and occasional pieces and will make its retail debut in early 2005.

Our *Wrangler®* brand also has a unique position as the authentic icon of timeless American values, deeply rooted in Western heritage. We have a range of products specifically designed for those who live — or dream about living — the Western lifestyle. In 2004 we augmented our strong men's Western business with the successful launch of a new women's line, *Aura from the Women at Wrangler™*.

The *Wrangler®* brand has long been known for its versatility and durability. Our *Riggs Workwear™ by Wrangler®* line was first launched in 2003 to meet the needs of hard-working men with exceptionally comfortable, durable products offering practical details to get the job done right. The line had another great year in 2004, with additional growth planned in 2005.

Our *Riders®* brand enjoyed double-digit sales growth in 2004, buoyed by new fashion styles under the *Riders® Coppercollection™* line. Featuring copper zippers and rivets, as well as distinct copper accent threading, the line offers premium styling that appeals to women who want junior looks with a flattering missy fit. The brand also got a boost from its plus-size and casual pant programs.

Our *Lee®* brand men's business has experienced healthy growth over the past several years, fueled by our *Lee® Dungarees* program that is capturing a growing share of the young men's jeans business. We leveraged this success in 2004 with the launch of the *Buddy Lee Registered™* line. Each pair of jeans features a unique nine-digit identification number, which consumers can use to register their products on a special *Buddy Lee Registered™* website. In fall 2005 we'll extend *Lee® Dungarees* to the boy's category.

Our women's business was a big focal point for us in 2004 and will continue to be in 2005. Lee's *One True Fit™* and new *Ultimate 5™* programs have given female consumers a new reason to buy, by offering young women contemporary styles with a flattering look and great fit. A range of new products for more traditional female consumers is in the pipeline for 2005.

The rich history and authenticity of our *Lee®* brand has led to the launch of *Lee®* Authentics, a premium line available in select specialty retail stores. The line combines fashionable European product styling and fabrics to attract sophisticated upscale consumers. We'll continue to leverage this positioning in 2005 with the launch in mid-tier department stores of the *Lee®* Heritage Collection, a new line featuring premium quality denim with trims and packaging inspired by the *Lee®* brand heritage.

***Earl Jean®*: A Cut Above** Our newest brand is *Earl Jean®*, which we obtained through our acquisition of Nautica, Inc. The brand is sold through upscale department and specialty

Lee
Wrangler
Wrangler Hero
Riders
Rustler
Timber Creek by Wrangler
Wrangler Rugged Wear
Riggs Workwear by Wrangler
Pro Gear by Wrangler
Aura from the Women at Wrangler
20X
Earl Jean
Chic
Gitano
Brittania
*UFO**
Hero by Wrangler
H.I.S
Maverick
Old Axe

stores, as well as through its own stores in New York City, Miami, Los Angeles and London. We are in the midst of a thorough analysis of the *Earl Jean®* brand to identify ways to capitalize on its unique heritage and realize its full potential. We're looking forward to celebrating the brand's tenth anniversary in 2005 by delivering the best fits, fabrics and finishes in the premium jeans category.

Expanding Our Presence Around the World

Our jeans brands continue to extend their reach around the world. We were pleased to see growth in many international markets including Latin America, Canada, Mexico, Turkey and Asia.

Our flagship brands, *Wrangler®* and *Lee®*, are clearly setting the bar for innovation in the denim market in Europe. Our first European *Lee®* brand store opened in London in 2004 and is off to a strong start, surpassing our expectations. Two additional stores are slated for 2005. The launch of the X-Line, which features distinctive styling details, has been a success with young, fashion-conscious male and female consumers and should continue to drive our *Lee®* brand results.

We also have a new contemporary product under the *Wrangler®* brand in Europe, called *Wrangler®* W Rivet, that offers a contemporary interpretation of our classic jeans brand. Our primary targets for this line are male consumers between the ages of 20 and 35. We're supporting the launch with a highly visible new marketing campaign.

The mass market channel in Europe continues to grow rapidly, and we're capturing our fair share of this growth via our *Hero by Wrangler®*, *Old Axe®* and *Maverick®* brands. Our business is being driven principally by our *Hero by Wrangler® EasiFit™* line, which combines the superior comfort and fit of a stretch jean with a contemporary denim look and finish.

Our established base in Europe is providing us with the infrastructure and capabilities to support VF's growing portfolio of international brands and has been a big factor in the successful integration of our Vans, Napapijri and Kipling businesses there.

The growth achieved in Latin America in 2004, even in unstable economic conditions in some markets, prove time and again the power of the *Wrangler®* and *Lee®* brands.

Retail stores have been an important part of our strategy in Latin America. They have allowed us to build our brands while also providing us with an important channel of distribution. They also account for as much as 40% of our sales in some markets, such as Argentina. In 2004, we opened 7 new stores, bringing the total number of company-owned stores in the region to 42, with more planned for 2005.

Russia is a relatively new market for us, and we're off to a strong start with substantial growth expected in 2005. We also have a firm foothold in Asia with our *Lee®* and *Wrangler®* brands. In fact, *Lee®* jeans continue to be the number one premium brand in China.

channels of distribution

brands *Licensed Brands	united states			international		
	Department Store	Mass Market	Specialty Store	Department Store	Mass Market	Specialty Store
Lee	•		•	•		•
Wrangler	•		•	•		•
Wrangler Hero		•				
Riders		•				
Rustler		•				
Timber Creek by Wrangler		•				
Wrangler Rugged Wear			•			
Riggs Workwear by Wrangler			•			
Pro Gear by Wrangler			•			
Aura from the Women at Wrangler			•			
20X			•			
Earl Jean			•			•
Chic		•				
Gitano		•				
Brittania		•				
*UFO**						•
Hero by Wrangler					•	
H.I.S				•		•
Maverick					•	
Old Axe					•	

intimate apparel Our great portfolio of brands led the way for a strong year in 2004. Sales rose 9% and profitability improved as well.

Vanity Fair
Lily of France
Vassarette
Bestform
Curvation
*Tommy Hilfiger**
Lou
Bolero
Gemma
Intima Cherry
Belcor
Variance
Majestic
*Nike Swim**

A highlight in 2004 was our new joint venture agreement in Mexico, which provides a platform to introduce our brands there.

Three Brands with Momentum in Mass Our *Vassarette®* brand, which targets the "sexy and fun" consumer, has been especially strong during the past two years and we've used this strength to further expand into the panty and teen areas. We've increased our marketing spending to highlight the brand's fresh, exciting imagery. And we've tapped into the popularity of NASCAR with our sponsorship of an up-and-coming female driver.

A big success for us in 2003 was the launch of our *Curvation®* brand, designed to address the needs of real women with real curves. The brand expanded into sports and strapless bras in 2004, and we plan to launch shapewear this spring. No doubt some of our success can be attributed to our relationship with award winning musician, actress and author, Queen Latifah, who has been our spokesperson for the brand since its inception.

Our *Bestform®* brand enjoys a leadership position in the sports bra category, and we built upon this success in 2004 with the launch of new high performance products.

Style, Fit and Value: A Winning Combination Our constant focus on innovation paved the way for success in department and chain stores in 2004. Our *Vanity Fair®* brand capitalized on its reputation for great style and fit with the launch of its *Body Sleeks™* collection in 2004. Contributing to the success of the launch was our national print campaign that showcased our new updated look and tagline, "Sense and Sensuality™."

Our *Lily of France®* brand's *Value in Style®* collection, which offers great quality at an everyday value price, continued to drive the brand's performance in 2004. The brand's fashion collection is geared to consumers seeking a sexy, contemporary look, with the introduction of the *Spellbound™* and *Dazzler®* collections that complement our successful *X-Bra®* collection and sports bra lines.

Launched in 2000, our licensed *Tommy Hilfiger®* intimates business continues to be a key player in the status intimate apparel arena. We now offer a complete line including pants, bras and camisoles.

Our private label business had a stellar year, as we partnered with one of our largest customers to support an important new product launch. While somewhat more volatile than our branded business, our private label business remains an integral part of our strategy.

We have a presence in Europe, primarily France and Spain, with brands such as *Belcor®*, *Bolero®*, *Gemma®*, *Intima Cherry®*, *Lou®* and *Variance®*, in addition to our *Vassarette®* and *Bestform®* brands. Our European team is focused on gaining market share, rolling out innovative new sales formats and transforming its supply chain to drive higher profitability.

Looking forward, we're expanding and extending our biggest brands, building our business in Canada, Mexico and Western Europe and exploring new markets such as Asia.

channels of distribution

brands	united states			international		
*Licensed Brands	Department Store	Mass Market	Specialty Store	Department Store	Mass Market	Specialty Store
Vanity Fair	●					
Lily of France	●					
Vassarette		●			●	
Bestform		●			●	
Curvation		●				
*Tommy Hilfiger**	●					
Lou				●		
Bolero				●		
Gemma	●			●		
Intima Cherry				●		
Belcor				●		
Variance					●	
Majestic				●		
*Nike Swim**				●		

outdoor We have a vibrant and growing portfolio of international brands in our Outdoor coalition. With the addition of three outstanding new brands, 2004 was a busy year for us.

Combined sales for *The North Face*®, *JanSport*® and *Eastpak*® brands grew 21% percent in 2004. Total sales jumped 73%, reflecting the acquisitions of the *Vans*®, *Napapijri*® and *Kipling*® brands.

JanSport
Eastpack
The North Face
Trans by JanSport
Vans
Napapijri
Kipling

The North Face®: Premier, Authentic, Technical and Innovative *The North Face*® brand is the number one technical outdoor brand in the world. Offering the most advanced products on the market, *The North Face*® brand is the choice of the world's most accomplished climbers, mountaineers, skiers, snowboarders and explorers. The strength of the brand led to growth in all product categories in 2004, led by footwear and snowsports.

We opened a new retail store in Boston, bringing the total of owned retail stores in the U.S. to eight. And we are partnering with key retail customers to add locations; in 2004 we added stores in Olympic Valley, California and Vail, Colorado. We also opened partnership stores in Amsterdam, Helsinki and St. Petersburg, plus three in Asia, for a total of eight stores internationally.

The prospects for continued growth are bright and we'll continue to leverage our material and design innovation to drive sales, particularly in outerwear, sportswear, footwear and snowsports. The brand has room to expand internationally, and we're looking for growth in markets such as Russia, Poland and the Czech Republic.

JanSport® and Eastpack®: Leading the Market in Packs Our *JanSport*® brand continues as the number one daypack in the world. In 2004 we launched the *JanSport*® *Modus*™ line, a comprehensive collection of luggage and bags created for young adult business travelers. We also extended our apparel offerings into young men's and juniors outerwear. The brand's presence in Europe is gaining recognition for its computer bags featuring our *ShockShield*™ protection system.

Positioned to appeal to the young and hip, our *Eastpak*® brand is the number one pack brand in Europe. We're looking forward to our first foray into apparel with the launch of men's and women's apparel in 2005, and the opening of our first retail store in Milan.

The New Brands: Vans®, Napapijri® and Kipling® With roots extending back to 1966, the *Vans*® brand is known as the original skateboard shoe. Since then, the company has continued to create footwear, apparel and accessories for the skate, surf and snow markets that embody Southern California youth culture.

The *Vans*® brand provides us with an entry into the action sports market, and provides a new channel of distribution — action sport stores and teen lifestyle chains. Vans operates 96 retail stores and has about one third of sales coming from overseas markets.

We bolstered our sportswear expertise in Europe with the acquisition of the *Napapijri*® brand of premium outdoor lifestyle apparel. We're leveraging their great design talent to enable additional growth for *The North Face*® brand in Europe and to assist in the European launch of our *Nautica*® brand.

The mission for our new *Kipling*® brand is to be the best women's casual bag brand in the world. *Kipling*® brand products include handbags, luggage, backpacks and accessories. Under license, other *Kipling*® brand categories include eyewear, footwear, home products, jewelry and watches. The company has 16 owned retail stores throughout Belgium, Holland and the U.K., with distributors operating over 70 more in Europe and Asia.

We have aggressive growth plans for our Outdoor businesses, and acquisitions are likely to be an important component of that growth.

channels of distribution

brands	united states			international		
	Department Store	Mass Market	Specialty Store	Department Store	Mass Market	Specialty Store
JanSport	●		●	●		●
Eastpack			●	●		●
The North Face	●		●	●		●
Trans by JanSport		●				
Vans	●		●	●		●
Napapijri			●			●
Kipling	●		●	●		●

imagewear A leader in both uniforms and licensed apparel, our Imagewear coalition performed solidly in 2004, with higher sales and record profits.

The coalition has been re-energized by its new "customer first" approach, which has led to a broad based reorganization into six customer-focused sectors: Industrial, Service, Protective, Public Safety, Affinity and Retail. Each sector is supported by a team that is dedicated to growing the business, an approach that has already started to pay off in the form of more innovative products, superior service and — most importantly — a tighter connection between our brands and consumers. We also are excited about our January 2005 acquisition of a licensee of the Harley-Davidson Motor Company, Inc., which extends our leadership in that business. We're delighted to be partners with one of the world's great lifestyle brands.

Lee Sport
*Chase Authentics**
CSA
Red Kap
Bulwark
Penn State Textile
*NFL Red**
*NFL White**
Horace Small
VF Imagewear
Lee
Wrangler Hero
Chef Designs
E. Magrath
Byron Nelson
NBA
*Harley-Davidson**
*NCAA Blue Disc**

Our licensed apparel business had an extraordinary year, led by the Super Bowl, the Playoffs and the World Series. We're proud of our relationships with major sports, including the National Football League, Major League Baseball and NASCAR, which has enabled us to grow significantly by giving sports fans the products and quality they want. These high profile events require enormous service capabilities to turn out and deliver huge quantities of products featuring winning teams within hours of each event. For example, for the World Series, we delivered over two million units within 72 hours. In keeping with our Customer First initiative, we've organized our licensed business around each major customer to drive the right solution for their distinctive fan and consumer base. It's working — with licensed apparel sales growing at a double-digit rate for the past three years.

As the economy stabilized, so did our uniform business. In fact, our flagship *Red Kap*® brand had its strongest year since 2000. The industry continues to consolidate, but our position has never been stronger. *Horace Small*®, a leader in the public safety arena, has teamed with *The North Face*® brand to provide products such as *The Force*™ jacket. Made with the latest in fabric and construction technology, *The Force*™ jacket is designed with a layered approach, making it suitable for every public service activity, including those taking place in extremely cold conditions. The two brands are furthering their partnership this year with their support of "Cops on Top," a mountaineering program that honors officers who have lost their lives in the line of duty. And our *Bulwark*® brand, a leader in secondary protective apparel, continues to drive innovation for safer, more comfortable products. The service sector remains a bright spot in the employment picture, and we're participating via our *Penn State Textile*™ and *Chef Designs*® *Essentials with Style*™ brands, both leaders in their fields. At the same time, we're expanding our base of large corporate and government accounts, providing them with a one-stop shop for all their global uniform and apparel needs. In fact, VF Imagewear is the largest supplier of non-military apparel to U.S. government agencies, including U.S. Customs and Border Protection and the Transportation Security Administration.

Two new golf apparel brands for us are *E. Magrath*® and *Byron Nelson*®. Both are well-known within the golf industry and will help to extend our reach in corporate image apparel.

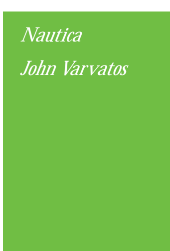
From the boardroom to the factory floor — and from the gridiron to the speedway — VF Imagewear has you covered.

channels of distribution

brands	united states			united states	
*Licensed Brands	Image	Retail		Image	Retail
Lee Sport		●	*VF Imagewear*		●
*Chase Authentics**		●	*Lee*		●
CSA		●	*Wrangler Hero*		●
Red Kap	●		*Chef Designs*		●
Bulwark	●		*E. Magrath*		●
Penn State Textile		●	*Byron Nelson*		●
*NFL Red**		●	*NBA*		●
*NFL White**		●	*Harley-Davidson**		●
Horace Small		●	*NCAA Blue Disc**		●

sportswear 2004 was a year of hard work and tremendous accomplishment for our Sportswear team.

Having purchased the *Nautica®* brand in 2003, we made great strides in stabilizing the men's sportswear business and getting the brand back on track for future growth.



When we acquired the *Nautica®* brand, we knew from our initial research that the brand resonated strongly with both male and female consumers. In early 2004 we undertook an extensive study to better understand consumers' attitudes toward the *Nautica®* brand as an important first step toward a broad repositioning of the brand and an overhaul of its product lines. What has emerged from this research is a crisp new point of view for the *Nautica®* brand. That point of view is captured in our new advertising campaign and the *Navigate life™* tagline, which was launched in early 2005. The essence of the *Nautica®* brand — timeless, energetic, balanced — is now being reflected in our entire product line and throughout all of our consumer communications.

We're beginning to see our efforts bear fruit. The product is performing much better at retail, reflecting an increase in quality across the board, an emphasis on key items such as outerwear, swimwear and active knits, and a more narrowed, focused assortment on the retail floor. Our spring and summer bookings are on plan and we're already seeing a favorable reaction to the new lines. To support our brand within retail stores, we're investing in a new shop-in-shop concept that will roll out to 150 locations this year.

Through our furnishings division, Nautica also makes and distributes men's and women's sleepwear and underwear. We continue to see opportunities to expand both our *Nautica®* Competition line, which features high performance fabrics in men's products, and our women's daywear line.

Jeans are an important component of the *Nautica®* brand, and we expect to lift sales in 2005 through new fabrics and washes, and the launch of our Denim Star premium collection at select locations.

A Strong Brand Across Multiple Categories As befits its lifestyle appeal, the *Nautica®* brand features a global licensed business in categories such as women's swimwear, bedding, neckwear, watches, fragrances, eyewear and tailored clothing. In 2005 we're partnering with our JanSport division to launch a line of *Nautica®* brand luggage. We also have a substantial licensed business overseas, particularly in China where we expect to have 200 freestanding stores in 2005, up from 120 in 2004. A new store featuring both men's and women's sportswear will open in Antwerp in April.

Our pan-European push into sportswear is well into the planning stages as we prepare for our launch in 2006. Here, too, we're partnering with another VF brand, *Napapijri®*, to leverage their excellence in European product design. Women's sportswear under the *Nautica®* brand remains another untapped opportunity, and we expect to make substantial progress toward defining our strategy and direction in 2005.

***John Varvatos®*: Defining Style** The John Varvatos business, which we obtained through our purchase of Nautica, consists of a collection of luxury products that feature signature detailing and an uncompromising standard of old world craftsmanship. Comprised of tailored clothing, sportswear, leather accessories and footwear, the collection is sold through upscale department and specialty stores, as well as through four *John Varvatos®* retail locations. The brand grew rapidly in 2004, and we expect another strong year in 2005.

Sportswear is a relatively new category for VF, and we're excited about the possibilities that lie ahead for both our *Nautica®* and *John Varvatos®* brands. Our experience to date with Nautica has shown that taking a great lifestyle brand and applying VF's excellence in branding, operations and financial processes can prove to be a powerful combination.

channels of distribution

brands	united states	
	Department Store	Specialty Store
Nautica	●	
John Varvatos	●	●

operating committee: (from left to right, seated) robert k. shearer *VP, Finance and Global Processes and Chief Financial Officer* john p. schamberger *VP and Chairman, Cross Coalition Management* eric c. wiseman *VP and Chairman, Outdoor and Sportswear Coalitions* mackey j. mcdonald *Chairman, President and Chief Executive Officer* george n. derhofer *VP and Chairman, Intimate Apparel and Imagewear Coalitions* michael t. gannaway *VP, Customer Management*

(from left to right, standing) boyd a. rogers *VP, Global Supply Chain and Technology* susan larson williams *VP, Human Resources* bradley w. batten *VP, Controller* terry l. lay *VP and Chairman, Jeanswear Coalition* frank c. pickard iii *VP, Treasurer* candace s. cummings *VP, Administration, General Counsel and Secretary* franklin t. terkelsen *VP, Mergers and Acquisitions*

financial review:

By almost any measure, 2004 was an exceptional year. We achieved record sales, earnings and cash flow from operations. We established a new long-term growth rate of 8% and are targeting $100 million of cost reductions over the next five years to help fuel that growth.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW

VF Corporation ("VF") is a leading marketer of apparel in the United States and in many international markets. Management's vision is to grow VF by building leading lifestyle brands that excite consumers around the world. VF owns a diversified portfolio of brands with strong market positions in several consumer product categories. And, we market occupational apparel to distributors and major employers. We are organized around our principal product categories, and major brands within those categories. These groupings of businesses, referred to as "coalitions," are summarized as follows:

Product Category	VF-owned Brands
Jeanswear	*Lee®, Wrangler®, Riders®, Rustler®, Timber Creek by Wrangler®*
Outdoor products	*The North Face®, Vans®, JanSport®, Eastpak®, Kipling®, Napapijri®*
Intimate apparel	*Vanity Fair®, Lily of France®, Vassarette®, Bestform®*
Sportswear	*Nautica®, John Varvatos®, Earl Jean®*
Imagewear	*Lee Sport®, Red Kap®, Bulwark®*

VF has a broad customer base, with products distributed through leading specialty, department, chain and discount stores around the world. Approximately 23% of our 2004 sales were in international markets, and our ten largest customers represented 38% of total 2004 sales.

Long-term Financial Targets

We have established several long-term financial targets that guide us in our strategic decisions. Attainment of these targets would be expected to drive increases in shareholder value. These targets are summarized below:

- **Sales growth of 8% per year –** Despite the apparel industry having been relatively flat in terms of unit volume with generally flat to slightly declining prices in recent years, our 2004 sales increased

16%, driven by growth in our core (i.e., ongoing) businesses, the full year effect of our 2003 acquisition of Nautica Enterprises, Inc. ("Nautica") and four acquisitions completed in 2004. We currently expect sales growth of 6 – 8% in 2005, excluding any additional acquisitions. On a longer-term basis, achieving our growth target will require a combination of core growth and acquisitions.

In our search for acquisitions, we focus on branded apparel businesses that satisfy our strategic and financial goals. Refer to the section titled "Strategic Objectives" for further details.

- **Operating income of 14% of sales –** In recent years, we have made progress toward this goal, as demonstrated by attaining an operating margin of 12.8% in 2004.

Many of our businesses currently exceed the 14% benchmark, and nearly all of our businesses have double digit margins. We continually evaluate our existing businesses, which in 2004 resulted in the decision to exit our *Healthtex*® and licensed *Nike*® childrenswear business ("VF Playwear") as it no longer met our strategic and financial objectives. We believe that our recently acquired companies can achieve the 14% target.

The improvement in operating margins in recent years was related, in part, to specific actions taken to reduce our cost structure. These actions have focused on lowering our product cost by moving our production to lower cost locations around the world. We will continue to pursue cost reduction opportunities in product cost, distribution and administrative areas.

- **Return on invested capital of 17% –** We believe that a high return on capital is closely correlated with enhancing shareholder value. We calculate return on invested capital as follows:

$$\frac{\text{Income before net interest expense, after income taxes}}{\text{Average short and long-term debt, plus common stockholders' equity}}$$

VF earned a 15.8% return on capital in 2004. We expect acquisition targets will achieve returns in line with our 17% return on capital goal.

- **Debt to capital of less than 40% –** To maintain a conservative financial position, we have established a goal of keeping our total debt to less than 40% of our total capitalization, with capitalization defined as our combined short and long-term debt plus common stockholders' equity. We would, however, be willing to exceed this target ratio, on a short-term basis, to support an appropriate investment opportunity. Despite significant acquisition spending in the last two years, this ratio was reduced to 28.5% at the end of 2004. And at year-end, we reported $485.5 million in cash and equivalents, demonstrating VF's ability to generate strong cash flow from operations.

- **Dividend payout ratio of 30% –** Our target is to return 30% of our earnings to our stockholders through a consistent dividend policy. We have maintained this payout ratio on a long-term basis. VF has increased dividends paid per share each year for the past 32 years. Our payout rate was 24.9% for 2004. In the fourth quarter of 2004, we increased the quarterly dividend to an indicated annual payout of $1.08 per share for 2005.

Strategic Objectives

In early 2004, we developed a growth plan that we believe will enable VF to achieve its long-term sales and earnings targets. Our growth strategy consists of five drivers:

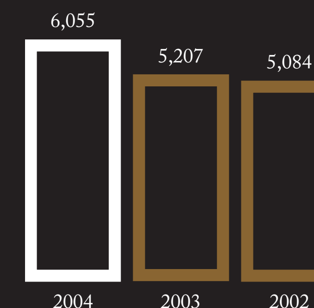
1. **Build new growing lifestyle brands.** Focus on building more growing, global lifestyle brands with an emphasis on younger consumers and on female consumers.
2. **Expand our share with winning customers.** Adapt our organizational structure to a more customer-specific focus to more successfully expand market share and leverage new business opportunities with these successful retailers.
3. **Stretch our brands and customers to new geographies.** Grow our international presence, particularly in rapidly expanding economies such as those in the Far East.
4. **Fuel the growth.** Leverage our supply chain and information technology capabilities across VF to drive costs and inventory levels lower, increase productivity and integrate acquisitions efficiently.
5. **Build new growth enablers.** Support our growth plans by identifying and developing high potential employees and by recruiting qualified leaders with new skill sets.

Highlights of 2004

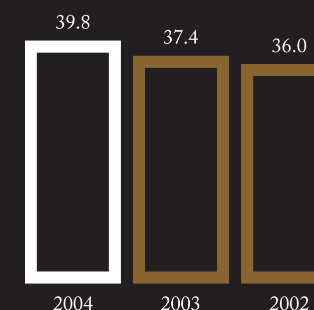
There were several notable actions and results in 2004:

- Sales, net income, earnings per share and cash flow were each at record levels.
- VF completed four acquisitions – *Vans*® brand performance and casual footwear and apparel for skateboarders and other action sports participants and enthusiasts ("Vans"); *Kipling*® brand backpacks, bags and accessories ("Kipling"); *Napapijri*® brand premium outdoor-based sportswear ("Napapijri"); and a 51% interest in an intimate apparel marketing company in Mexico. These are collectively referred to as the "2004 Acquisitions."
- Net sales increased 16% to $6,054.5 million. In addition to sales of the 2004 Acquisitions, contributing to this increase were a full year of sales of Nautica (compared with four months in the prior year following its acquisition) and organic sales growth in core businesses.
- Net income increased 19% to $474.7 million, and earnings per share increased 17% to $4.21. (All per share amounts are presented on a diluted basis.) These increases resulted from improved operating performance in most core businesses, plus profit contributions from our 2004 and 2003 acquisitions mentioned above.
- We invested $40 million in specific growth and cost reduction initiatives that will assist VF in meeting its long-term sales and earnings targets. This spending was not originally planned for 2004.
- We sold our VF Playwear business, which had been underperforming in recent years.
- Integration of our recent acquisitions is proceeding on or ahead of schedule.

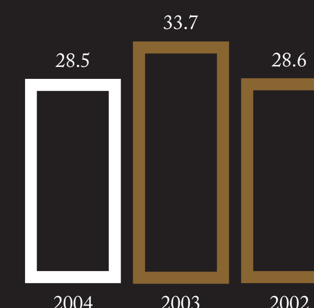
SALES
(Dollars in millions)



GROSS MARGIN
(Percent to sales)



DEBT TO CAPITAL RATIO
(Percent)



ANALYSIS OF RESULTS OF CONTINUING OPERATIONS

Acquisitions

VF acquired Vans, Kipling and Napapijri in 2004. The *Vans*®, *Kipling*® and *Napapijri*® brands are lifestyle brands that we believe have global growth potential. In addition, VF acquired a controlling interest in a newly formed intimate apparel marketing company in Mexico to expand our presence in that growing market.

The total cost of these acquisitions was $667.5 million in cash. These acquisitions added $303.0 million to sales and $0.14 to earnings per share in 2004. These four businesses are expected to contribute at least $200 million in additional sales and could contribute an additional $0.14 to earnings per share in 2005.

See Note B to the Consolidated Financial Statements for more information on the 2004 Acquisitions and on the acquisition of Nautica in 2003.

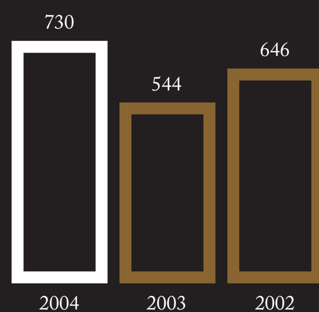
Consolidated Statements of Income

The following table presents a summary of the changes in our Net Sales in the last two years:

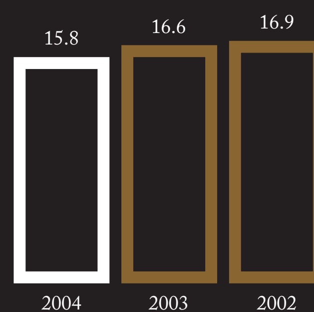
In millions	2004 Compared with 2003	2003 Compared with 2002
Net sales – prior year	$ 5,207	$ 5,084
Core businesses	235	(110)
Acquisitions in prior year (to anniversary date)	367	–
Acquisitions in current year	303	264
Disposition of VF Playwear	(57)	(31)
Net sales – current year	$ 6,055	$ 5,207

Sales increased in most core businesses in 2004 due to unit volume increases, particularly in our outdoor and intimate apparel businesses, and the favorable effects of foreign currency translation. Substantially all of the sales decline in our core businesses during 2003 was due to decreases in unit volume, offset in part by the effects of foreign currency translation. Sales in core businesses in 2003 declined by $126 million resulting from two major customers operating under bankruptcy protection and their store closures: Kmart Corporation, which filed for bankruptcy protection in January 2002 and emerged from bankruptcy in May 2003 as Kmart Holding Corporation, and Ames Department Stores, Inc., which operated under bankruptcy protection until its liquidation in the second half of 2002. Additional details on sales are provided in the section titled Information by Business Segment.

CASH PROVIDED BY OPERATIONS
(Dollars in millions)



RETURN ON CAPITAL
(Percent)



The 2004 Acquisitions added 6% to sales in 2004. The acquisition of Nautica in August 2003 added 7% (prior to the 2004 anniversary date of its acquisition) to 2004 sales and contributed 5% to 2003 sales.

In translating foreign currencies into the U.S. dollar, the weaker U.S. dollar in relation to the functional currencies where VF conducts the majority of its business (primarily the European euro countries) improved sales comparisons by $96 million in 2004 relative to 2003. For 2003, sales comparisons benefited by $128 million relative to 2002. The average translation rate for the euro was $1.23 per euro during 2004, compared with $1.12 during 2003 and $0.94 during 2002. Based on the translation rate of $1.36 per euro at the end of 2004, reported sales in 2005 may also receive a translation benefit compared with 2004.

The following table presents the percentage relationship to Net Sales for components of our Consolidated Statements of Income:

	2004	2003	2002
Gross margin (net sales less cost of goods sold)	**39.8%**	37.4%	36.0%
Marketing, administrative and general expenses	**(27.7)**	(25.6)	(24.2)
Royalty income and other	**0.7**	0.6	0.4
Operating income	**12.8%**	12.4%	12.2%

Gross margins increased to 39.8% of sales in 2004, compared with 37.4% in 2003 and 36.0% in 2002. Approximately 1.8% of the 2004 increase was in our core businesses, including changes in the mix of our businesses as we have experienced sales growth in our higher margin outdoor businesses, benefits of cost reduction actions and operating efficiencies. The additional 0.6% increase in gross margin as a percent of sales was due to higher gross margins of the 2004 Acquisitions and the 2003 acquisition of Nautica (prior to its anniversary date). Approximately 1.0% of the 2003 increase in gross margin was due to changes in the mix of our businesses, as we experienced sales growth in our higher margin outdoor and international jeans businesses, and from the acquisition of Nautica. The remaining 0.4% improvement related to benefits of our cost reduction initiatives and lower restructuring costs incurred relative to 2002.

Over the last five years, we closed a significant number of manufacturing facilities in the United States and shifted production to lower cost sources. As a result of this shift in sourcing, the amount of sales in the United States derived from products manufactured in lower cost locations outside the United States has increased each year over the last three years. During 2004, 3% of the units we sold in the United States were manufactured in VF-owned plants in the United States. In contrast, at the end of 2000, approximately one-third of our products sold in the United States were manufactured in our United States plants. Today, of the total products supporting sales to customers in the United States, 38% were manufactured in VF-owned facilities in Mexico and the Caribbean Basin and 59% were obtained from contractors, primarily in Asia. We believe this combination of VF-owned and contracted production from different geographic regions provides a competitive advantage in our product sourcing.

Marketing, Administrative and General Expenses increased as a percent of sales to 27.7% in 2004, compared with 25.6% in 2003 and 24.2% in 2002. During 2004, approximately 1.4% of the increase was due to the higher cost to sales relationship of the 2004 Acquisitions and Nautica (prior to the anniversary date of its acquisition) than other VF businesses. The remaining 0.7% is due to spending on the growth and cost reduction initiatives discussed in the following paragraph, increased incentive compensation expense and increased advertising as a percent of sales, offset in part by favorable effects of higher volume and cost reduction efforts. During 2003, approximately 0.7% of the increase in these expenses as a percent of sales was due to changes in the mix of our businesses, with a larger portion of sales coming from businesses having a higher expense percentage. In addition, increased pension cost in 2003 resulted in a 0.5% increase.

The remaining 0.2% of the increase was due to lower sales volume in our core businesses without a proportionate decline in expenses.

Operating results in 2004 included $40 million of expense (0.7% of net sales) related to growth and cost reduction initiatives. Of this total, approximately $36 million related to Marketing, Administrative and General Expenses, with the balance related to Cost of Goods Sold. Approximately 40% of this spending related to new or expanded advertising programs and market research associated with our *Nautica*® and other brands. Approximately 45% of the spending related to cost reduction actions and consulting related to future cost reduction opportunities. For example, we entered into an information technology outsourcing agreement with a major third party service provider, and we incurred charges for the closure of a production plant and for consolidation of distribution centers. And finally, approximately 10% of the spending related to additional positions to drive growth. We added four new executive positions, and will be adding supporting staff positions, dedicated to working more closely with our major customers, driving increased strategic planning for brand development and pursuing targeted acquisition efforts.

We include cooperative advertising, retail store and distribution costs in Marketing, Administrative and General Expenses, as stated in our significant accounting policies in Note A to the Consolidated Financial Statements. Some other companies may classify cooperative advertising costs as a reduction of Net Sales, while some may classify retail store and distribution costs in Cost of Goods Sold. Accordingly, our gross margins and operating expenses may not be directly comparable with those companies.

Royalty Income and Other increased by $12.7 million in 2004 and $7.0 million in 2003. Net royalty income was $49.9 million in 2004, $28.6 million in 2003 and $20.5 million in 2002. The increase in both years was primarily from higher levels of licensing activity related to Nautica, acquired in August 2003. Also included in this caption is $9.5 million of net charges related to the disposition of VF Playwear in 2004. Goodwill Impairment consisted of a charge of $2.3 million in our VF Playwear reporting unit in 2002 based on a revised forecast of its profits and cash flows.

Interest Expense (including amortization of debt discount, debt issuance costs and gain/loss on interest rate hedging contracts) increased by $14.7 million in 2004 and decreased by $10.0 million in 2003. The increase in 2004 was primarily due to higher average borrowings, and the decrease in 2003 was primarily due to lower average interest rates. Average interest-bearing debt outstanding totaled approximately $1,050 million for 2004, $810 million for 2003 and $770 million for 2002. The weighted average interest rate was 7.0% for 2004, 7.3% for 2003 and 8.1% for 2002. Interest Income in 2003 included $5.7 million related to the settlement of federal income tax issues.

The effective income tax rate for continuing operations was 33.3% in 2004, compared with 33.5% in 2003 and 35.1% in 2002. The effective income tax rate declined in 2004 relative to 2003 primarily due to increased income in international jurisdictions that was taxed at lower rates. The effective tax rate declined in 2003 relative to the prior year due to (1) higher nontaxable income related to investments held for employee benefit plans, (2) lower foreign operating losses with no related tax benefit and (3) favorable settlements in 2003 of prior years' federal and state income tax returns.

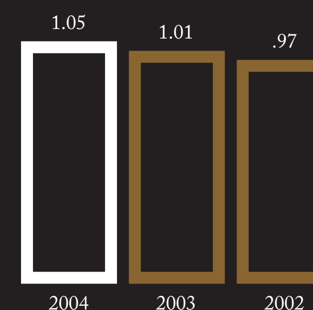
Income from continuing operations was $474.7 million ($4.21 per share) in 2004. This compares with income from continuing operations of $397.9 million ($3.61 per share) in 2003 and $364.4 million ($3.24 per share) in 2002. Income from continuing operations increased 19% in 2004, while earnings per share increased 17%, reflecting a larger number of shares outstanding due to exercises of stock options. In 2003, income from continuing operations increased 9% over the prior year, while earnings per share increased 11%, reflecting the benefit of shares repurchased during 2003 and 2002. In translating foreign currencies into the U.S. dollar, the weaker U.S. dollar had a $0.09 favorable impact on earnings per share in 2004 compared with the prior year and a $0.14 favorable impact in 2003 compared with the prior year. The 2004 Acquisitions had a $0.14 favorable impact on 2004 operating results, and the acquisition of Nautica in 2003 had a $0.16 per share favorable impact on 2003 results.

In 2002, VF exited the Private Label Knitwear and the Jantzen swimwear businesses. Both businesses met the criteria for treatment as discontinued operations. Accordingly, their operating results and cash flows are separately presented as discontinued operations in the accompanying consolidated financial statements. During 2002, these businesses contributed net income of $8.3 million ($0.07 per share), primarily due to gains on disposal of real estate.

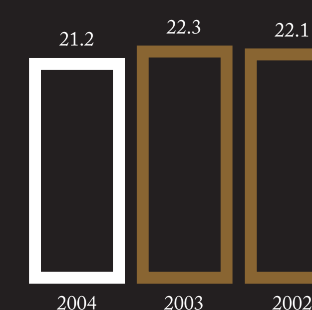
VF adopted FASB Statement No. 142, *Goodwill and Other Intangible Assets,* at the beginning of 2002. In adopting this Statement, we estimated the fair value of our individual business reporting units on a discounted cash flow basis. This evaluation, and the related valuation of net assets of each reporting unit, indicated that recorded Goodwill exceeded its fair value at several business units where performance had not met management's expectations established at their acquisition dates. More specifically, the European intimate apparel, childrenswear, occupational apparel and licensed sportswear business units had been profitable in prior years but at a lower level than anticipated at the dates of their respective acquisitions. The Latin American jeanswear business units had not been profitable due to deteriorating economic conditions in South America, but profitability was expected in the future. In each case, recorded Goodwill was expected to be recoverable from future undiscounted operating cash flows. The write-down of Goodwill upon adoption of this Statement was attributable to differences between the fair value approach under this Statement and the undiscounted cash flow approach used under previous accounting literature. The adoption of this Statement resulted in a noncash charge of $527.3 million in 2002, without tax benefit ($4.69 per share). See Note A to the Consolidated Financial Statements for additional details.

VF reported net income of $474.7 million ($4.21 per share) in 2004, compared with $397.9 million ($3.61 per share) in 2003. Including the effect of the above accounting change and the discontinued operations discussed in the preceding paragraphs, VF reported a net loss of $154.5 million ($1.38 per share) in 2002.

DIVIDENDS PER SHARE
(Dollars)



RETURN ON AVERAGE COMMON EQUITY
(Percent)



Information by Business Segment

VF's businesses are organized into five product categories, and by brands within those product categories, for management and internal financial reporting purposes. These groupings of businesses are referred to as "coalitions." Both management and VF's Board of Directors evaluate operating performance at the coalition level. These coalitions represent VF's reportable business segments.

For business segment reporting purposes, Coalition Sales and Coalition Profit represent net sales and operating expenses under the direct control of an individual coalition, royalty income for which it has responsibility, amortization of acquisition-related intangible assets and its share of centralized corporate expenses directly related to the coalition. Corporate expenses not apportioned to the coalitions and net interest expense are excluded from Coalition Profit. Importantly, this basis of performance evaluation is consistent with that used for management incentive compensation.

See Note R to the Consolidated Financial Statements for composition of the coalitions. Also see Note R for a summary of our results of operations and other information by coalition, along with a reconciliation of Coalition Profit to Consolidated Income from Continuing Operations before Income Taxes. Coalition results are not necessarily indicative of the operating results that would have been reported had each business coalition been an independent, stand-alone entity during the periods presented. Further, VF's presentation of Coalition Profit may not be comparable with similar measures used by other companies.

The following table presents a summary of the changes in our Net Sales by coalition during the last two years:

In millions	Jeanswear	Outdoor Apparel and Equipment	Intimate Apparel	Imagewear	Sportswear	Other
Net sales – 2002	$ 2,789	$ 508	$ 840	$ 752	$ –	$ 195
Core businesses	(122)	73	(10)	(40)	–	(11)
Acquisitions in current year	–	–	–	15	249	–
Disposition of VF Playwear	–	–	–	–	–	(31)
Net sales – 2003	2,667	581	830	727	249	153
Core businesses	**(5)**	**127**	**68**	**31**	**–**	**14**
Acquisitions in prior year	**–**	**–**	**–**	**12**	**355**	**–**
Acquisitions in current year	**–**	**296**	**6**	**–**	**1**	**–**
Disposition of VF Playwear	**–**	**–**	**–**	**–**	**–**	**(57)**
Net sales – 2004	**$ 2,662**	**$ 1,004**	**$ 904**	**$ 770**	**$ 605**	**$ 110**

Jeanswear: The Jeanswear coalition consists of our global jeanswear businesses, led by the *Wrangler®* and *Lee®* brands. Overall jeanswear sales in 2004 declined slightly, with a 3% decline in domestic jeanswear substantially offset by a 7% increase in international jeanswear. Domestic jeanswear sales declined due to a continued reduction in sales to Kmart Holding Corporation, which emerged from bankruptcy protection in 2003, lower sales of off-price product and reduced sales of *Lee®* branded women's products. Sales in international markets benefited from $57 million of favorable foreign currency translation. Increased sales in Canada, Latin America and Mexico helped to offset declines in our European businesses. In 2003, overall jeanswear sales declined 4%. Domestic jeanswear sales declined 7%, with the unit volume decline related to the two bankruptcies noted in the previous section accounting for almost all of the sales dollar decline. The balance was due to selected price reductions and changes in product mix. International jeanswear sales increased 5% in 2003 due to a $72 million favorable effect of foreign currency translation.

Jeanswear Coalition Profit increased 9% in 2004 due to lower sales of off-price products and improvements in operating efficiencies, particularly in the United States. Coalition Profit declined by 12% during 2003, with two-thirds of the decline related to the bankruptcies mentioned above. Coalition Profit in 2003 also declined due to selected price decreases and a net change in product mix (lower margin products), offset by benefits from previous years' restructuring actions.

Outdoor Apparel and Equipment: The Outdoor Apparel and Equipment coalition consists of VF's outdoor-related businesses represented by *The North Face®* brand (apparel and equipment) and the *JanSport®* and *Eastpak®* brands (apparel and daypacks). Acquisitions in 2004 added *Vans®* brand performance and casual footwear and apparel for skateboarders and other action sports participants and enthusiasts, *Kipling®* brand backpacks, bags and accessories and *Napapijri®* brand outdoor-based sportswear, which collectively contributed $296 million to 2004 sales. Sales increased in both 2004 and 2003 in the core businesses, with unit volume increases at The North Face resulting from strong consumer demand for its products in the United States and internationally. Sales in both years benefited from the favorable effects of foreign currency translation – $23 million in 2004 and $31 million in 2003 relative to the respective prior year.

Coalition Profit increased 61% in 2004 over the prior year and increased 34% in 2003 over 2002. About one-half of the 2004 increase was due to the 2004 Acquisitions. The remainder of the 2004 increase and most of the 2003 increase was due to volume increases at The North Face.

Intimate Apparel: The Intimate Apparel coalition consists of our global women's intimate apparel businesses, led by the *Vanity Fair®*, *Lily of France®*, *Vassarette®* and *Bestform®* brands in the United States. Sales increased 9% in 2004, with unit volume growth in our private label business resulting from new programs sold to a major private label customer and unit growth in our mass market *Vassarette®* and *Curvation®* brands. Domestic intimate apparel sales in 2003 were flat in the department store and mass market channels, but overall declined by 3% due to a decrease in private label programs. International intimate apparel sales advanced in both 2004 and 2003. During 2004, the comparison was helped by the acquisition of a new business in Mexico in 2004 and favorable effects of foreign currency translation of $16 million. Currency translation benefited 2003 by $25 million relative to the respective prior year.

Coalition Profit increased 37% in 2004 and declined 11% in 2003 from the respective prior year. The 2004 increase was due to higher volume and improved operating efficiencies. The decline in 2003 resulted from lower sales volume and a $7.7 million charge related to a withdrawal liability for a multiemployer union pension plan.

Imagewear: The Imagewear coalition includes VF's occupational (industrial, career and safety) apparel business, as well as our licensed sports apparel business. Coalition Sales increased 6% in 2004 and declined 3% in 2003.

Occupational apparel sales increased 5% in 2004, primarily due to higher sales of service uniforms to governmental agencies, compared with a sales decline of 9% in 2003. While sales of career and safety apparel have generally been increasing in recent years, industrial workwear has been declining since 2000. This decline in workwear resulted from (1) workforce reductions in the United States manufacturing sector, which has impacted overall workwear uniform sales, and (2) the ongoing consolidation of our industrial laundry customers and those customers placing greater reliance on their in-house manufacturing and product sourcing. Sales of the licensed sports businesses grew 15% in 2004 and 16% in 2003, led by increases in sales of products under license from the National Football League, Major League Baseball and Harley-Davidson Motor Company, Inc.

Coalition Profit increased 14% in 2004 due to volume gains across most business units, offset in part by a small loss in the distributor knitwear business. Coalition Profit increased 18% in 2003 due to cost reduction benefits resulting from prior years' restructuring actions, which allowed for a higher margin on a lower sales volume, and the absence of restructuring charges in 2003.

Sportswear: The Sportswear coalition consists of our *Nautica®* fashion sportswear, *John Varvatos®* luxury apparel and accessories and *Earl Jean®* fashion jeans brands, all acquired as part of the Nautica acquisition in August 2003. Both Coalition Sales and Coalition Profit include a full year of operating results for 2004, compared with only four months in 2003. On a comparable full year basis and as anticipated at the time of the acquisition, unit sales for the *Nautica®* brand declined slightly due to fewer department store doors. Unit sales also declined at Earl Jean but advanced at John Varvatos. Also on a comparable full year basis, Coalition Profit for the *Nautica®* brand increased due to improved retail performance resulting in fewer markdowns and returns, cost reductions, the exit of an unprofitable product line and other operating efficiencies.

The operating plan for the Nautica business at the acquisition date was to (1) restore and rebuild the brand's image, (2) stabilize its men's wholesale sportswear business by designing product that was consistent with the brand's image, (3) grow the other core businesses, including men's jeans, retail and licensing, and (4) exit underperforming businesses. Several management team changes were made to drive the needed changes in the business. The 2004 product lines were returned to the more classic *Nautica®* brand styling, and we made substantial progress toward achieving each of the four operating objectives set forth above. We believe that Nautica is positioned for growth and increased profitability in 2005, and we expect another year of significant growth in John Varvatos.

Other: The Other business segment consists primarily of VF Playwear. Trademarks and certain operating assets of this business unit were sold in May 2004. Inventories and other retained assets were liquidated during the remainder of the year. The segment loss in 2004 included net charges of $9.5 million related to the disposal of this business. See Note C to the consolidated financial statements for a summary of VF Playwear's sales and losses for the three years.

This segment also includes the VF Outlet business unit, which consists of company-operated retail outlet stores in the United States that sell a broad selection of products, primarily excess quantities of first quality VF products. Sales and profit of non-VF products (primarily hosiery, underwear and accessories to provide a broader selection of merchandise to attract consumer traffic) are reported in this business segment. Sales and profit of VF products are reported as part of the operating results of the respective coalitions.

Reconciliation of Coalition Profit to Consolidated Income before Income Taxes: There are two types of costs necessary to reconcile total Coalition Profit, as discussed in the preceding paragraphs, to Consolidated Income from Continuing Operations before Income Taxes. These costs, discussed below, are Interest and Corporate and Other Expenses. See Note R to the Consolidated Financial Statements.

Interest Expense, Net, was discussed in the previous "Consolidated Statements of Income" section. Interest is excluded from Coalition Profit because substantially all of our financing costs are managed at the corporate office and are not under the control of coalition management.

Corporate and Other Expenses consists of corporate and similar costs that are not apportioned to the operating coalitions. These expenses are summarized as follows and discussed in the paragraphs below:

In millions	2004	2003	2002
Information systems	$ 137.1	$ 125.1	$ 126.4
Less costs apportioned to segments	(108.4)	(102.1)	(101.1)
	28.7	23.0	25.3
Corporate headquarters' costs	69.6	46.7	47.5
Trademark maintenance and enforcement	12.9	10.3	11.3
Other	(2.0)	1.5	19.4
Corporate and Other Expenses	$ 109.2	$ 81.5	$ 103.5

- **Information Systems –** Included are costs of our U.S.-based management information systems and of our centralized shared services center. Operating costs of information systems and shared services are charged to the coalitions based on utilization of those services, such as minutes of computer processing time, number of transactions or number of users. However, costs to develop new computer applications that will be used across VF are not allocated to the coalitions. The biggest factor in the information systems cost increase in 2004 was $8.3 million of consulting, severance and asset write-downs related to outsourcing certain of our information technology needs to a major third party service provider.

- **Corporate Headquarters' Costs –** Headquarters' costs include compensation and benefits of corporate management and staff, legal and professional fees, and administrative and general expenses, which are not apportioned to the coalitions. Costs increased in 2004 primarily due to a $15.0 million increase in incentive compensation related to VF's strong 2004 financial performance relative to its targets. Also included in 2004 was $5.8 million of consulting and research expenses related to VF's growth and cost saving initiatives.

- **Trademark Maintenance and Enforcement –** Legal and other costs of registering, maintaining and enforcing VF's portfolio of trademarks, plus costs of licensing administration, are controlled by a centralized trademark and licensing staff and are not allocated to the coalitions.

- **Other –** This category includes (1) adjustments to convert the earnings of certain business units using the FIFO inventory valuation method for internal reporting to the LIFO method for consolidated financial reporting, (2) other consolidating adjustments and (3) miscellaneous costs that result from corporate programs or corporate-managed decisions that are not allocated to the business units for internal management reporting. In 2002, this category included a special $8.0 million incentive compensation payment covering most employees and an increase of $3.7 million in worker's compensation expense based on consultation with our independent adviser. These charges were retained in corporate for internal management reporting and not apportioned to the coalitions due to the nature of these items and the inability of our coalition management to influence them.

ANALYSIS OF FINANCIAL CONDITION

Balance Sheets

Accounts Receivable increased in 2004 primarily due to the 2004 Acquisitions. The number of days' sales outstanding increased slightly in 2004 due to longer terms offered to customers at certain of the 2004 Acquisitions.

Inventories increased in 2004 due to the 2004 Acquisitions. Inventory levels at core businesses declined 3% from the end of 2003. Inventories have been declining in recent years through more efficient sales forecasting and production planning techniques. In addition, sales near the end of 2004 were higher than forecasted, resulting in inventory levels below expectations.

Property, Plant and Equipment declined in 2004 because depreciation expense during the year exceeded the sum of capital spending and assets acquired as part of the 2004 Acquisitions. Intangible Assets and Goodwill each increased in 2004 due to the 2004 Acquisitions. See Notes B, F, G and H to the Consolidated Financial Statements.

Deferred Income Taxes, recorded as noncurrent assets, declined in 2004 due to the inclusion of $85.6 million of noncurrent deferred income tax credits arising from the 2004 Acquisitions. These deferred tax credits related primarily to Intangible Assets of the acquired companies.

Accounts Payable increased in 2004 due to the 2004 Acquisitions and growth in our businesses. Accrued Liabilities increased due to the 2004 Acquisitions and an increase in accrued compensation related to increased incentive compensation payable based on VF's strong 2004 performance relative to its targets.

Total Long-term Debt was relatively flat from 2003 to 2004, with $400.0 million of notes reclassified to Current Portion of Long-term Debt based on debt retirement schedules. Of the current portion, $100.0 million is due on June 1, 2005 and $300.0 million is due on October 1, 2005.

Other Liabilities increased in 2004 by $17.5 million. Included are increases of $43.6 million in liabilities from growth in core businesses and $16.1 million in deferred income taxes, offset by a $42.2 million reduction in our minimum pension liability. See Note N to the Consolidated Financial Statements and the following paragraph.

In VF's defined benefit pension plans, accumulated benefit obligations exceeded the fair value of plan assets by $213.5 million at our plans' last valuation date. At the end of 2004, VF had a minimum pension liability of $157.0 million (net of a prepaid pension asset). The related charge to Accumulated Other Comprehensive Income (Loss), net of income taxes, was $119.1 million in 2004. Of the total minimum pension liability, $55.0 million was recorded as a current liability based on our contribution to the plan in January 2005, and $102.0 million was recorded as a long-term liability. The minimum pension liability at the end of 2004 compares with $199.2 million at the end of 2003 (of which $55.0 was classified as a current liability) and a related charge to Accumulated Other Comprehensive Income (Loss), net of income taxes, of $160.9 million. The reduction in underfunding at the end of 2004 resulted from growth in plan assets and VF contributions made during the year.

Liquidity and Cash Flows

The financial condition of VF is reflected in the following:

Dollars in millions	2004	2003
Working capital	**$ 1,006.4**	$ 1,419.3
Current ratio	**1.7 to 1**	2.8 to 1
Debt to total capital	**28.4%**	33.7%

For the ratio of debt to total capital, debt is defined as short-term and long-term borrowings, and total capital is defined as debt plus common stockholders' equity. Our ratio of net debt to total capital, with net debt defined as debt less cash and equivalents, was 17.0% at the end of 2004.

VF's primary source of liquidity is its strong cash flow provided by operations, which was $730.3 million in 2004, $543.7 million in 2003 and $645.6 million in 2002. Cash flow from operations is primarily dependent on the level of operating income and controlling investments in inventories and other working capital components. Income from continuing operations increased significantly in 2004 over 2003, and in 2003 over 2002. The net change in working capital components during 2004 and during 2002 resulted in $63.4 million and $50.0 million, respectively, of cash provided by operations, compared with cash usage of $6.9 million in 2003. A major reason for the year-to-year cash impact from changes in working capital over this three year period related to changes in incentive compensation, as amounts earned in a year are paid early in the following year. Cash provided by operating activities in 2004 included approximately $11 million of cash provided by the 2004 Acquisitions (for the periods after their acquisition), while 2003 included approximately $60 million of cash provided by Nautica (for the period after its acquisition). Cash provided from operations resulting from the liquidation of VF Playwear (but excluding proceeds from sale of the business) was approximately $40 million during 2004 (see Note C to the Consolidated Financial Statements).

In addition to cash flow from operations, VF is well-positioned to finance its ongoing operations and meet unusual circumstances that may arise. VF has a $750.0 million unsecured committed bank facility that expires in September 2008. This bank facility supports a $750.0 million commercial paper program. Any issuance of commercial paper would reduce the amount available under the bank facility. At the end of 2004, $738.2 million was available for borrowing under the credit agreement, with $11.8 million of standby letters of credit issued under the agreement.

Further, under a registration statement filed in 1994 with the Securities and Exchange Commission, VF has the ability to offer, on a delayed or continuous basis, up to $300.0 million of additional debt, equity or other securities.

The principal investing and financing activities in 2004 and 2003 related to acquisitions. We paid cash of $655.1 million and $578.0 million for acquisitions in 2004 and 2003, respectively, net of cash balances in the acquired companies. The acquisitions were funded with existing VF cash balances, short-term commercial paper borrowings and, in 2003, $292.1 million borrowed in the long-term capital markets. All commercial paper borrowings, plus debt of the acquired companies of $28.8 million in 2004 and $14.9 million in 2003, were repaid during the respective years, and we ended 2004 with $485.5 million in cash and equivalents.

In April 2004, Standard & Poor's Ratings Services affirmed its 'A minus' long-term corporate credit and senior unsecured debt ratings for VF. Standard & Poor's ratings outlook is 'stable.' Also in April 2004, Moody's Investors Service affirmed VF's long-term debt rating of 'A3' and short-term debt rating of 'Prime-2' and continued the ratings outlook as 'negative'. Based on current conditions, we do not believe that the negative outlook by Moody's will have a material impact on VF's ability to issue long or short-term debt. Existing debt agreements do not contain acceleration of maturity clauses based on changes in credit ratings.

Capital expenditures were $81.4 million in 2004, compared with $86.6 million and $64.5 million in 2003 and 2002, respectively. Capital expenditures in each of these years generally related to maintenance spending in our worldwide manufacturing and other facilities. We expect that capital spending could reach $120 million in 2005, with the increase related to distribution projects and to higher retail store investments. Capital spending will be funded by cash flow from operations.

As discussed in the previous section, accumulated benefit obligations in VF's defined benefit pension plans exceeded the fair value of plan assets by $213.5 million at the plans' latest valuation date. We believe retirement benefits are important for our associates, and accordingly, we are committed to maintaining a well-funded pension plan. Although VF was not required by applicable law to make any funding contribution to the qualified pension plan trust in 2004, 2003 and 2002 and will not be required to do so in 2005, we made cash contributions of $55.0 million in each of January 2005 and 2004 and $75.0 million in 2003. These contributions were significantly higher than our contributions of $20.0 million in each of the prior two years. We will continue to monitor the funded status of the plan and evaluate future funding levels. We believe VF has adequate liquidity to meet future funding requirements.

During 2003, VF purchased 1.7 million shares of its Common Stock in open market transactions at a cost of $61.4 million (average price of $36.55 per share) and in 2002 purchased 3.0 million shares at a cost of $124.6 million (average price of $41.54 per share). Under its current authorization from the Board of Directors, VF may purchase an additional 5.3 million shares. We suspended the share repurchase program during the second quarter of 2003 through the end of 2004 to fund acquisition spending. Our current intent is to repurchase 2.0 million shares during 2005 to offset dilution caused by exercises of stock options. However, the actual number purchased during 2005 may vary depending on funding required to support business acquisition opportunities.

Cash dividends totaled $1.05 per common share in 2004, compared with $1.01 in 2003 and $0.97 in 2002. Our target is to pay dividends totaling approximately 30% of our diluted earnings per share on a long-term basis. The dividend payout rate was 24.9% in 2004 compared with payout rates of 28.0% in 2003 and 29.9% in 2002, based on income from continuing operations. The current indicated annual dividend rate for 2005 is $1.08 per share.

In 2002, cash provided by discontinued operations totaled $69.9 million from the sale of the Jantzen business and related assets and from liquidation of working capital from the Jantzen and knitwear businesses.

Following is a summary of VF's fixed obligations at the end of 2004 that will require the use of funds:

		Payments Due or Forecasted by Period					
In millions	Total	2005	2006	2007	2008	2009	Thereafter
*Long-term debt**	$ 1,622	$ 464	$ 69	$ 69	$ 36	$ 35	$ 949
Operating leases	415	98	84	66	53	39	75
Minimum royalty payments	66	14	17	16	14	5	-
*Inventory obligations***	817	682	15	15	15	15	75
*Other obligations****	885	221	111	91	88	87	287
Total	$ 3,805	$ 1,479	$ 296	$ 257	$ 206	$ 181	$ 1,386

* Long-term debt service obligations include both principal and related interest.

** Inventory purchase obligations represent commitments for raw material, sewing labor and finished goods in the ordinary course of business that are payable upon satisfactory receipt of the inventory by VF, plus a commitment to purchase $15.0 million per year through 2013 of finished goods from one supplier.

*** Other obligations represent other commitments for the expenditure of funds, many of which do not meet the criteria for recognition as a liability for financial statement purposes. These commitments include forecasted amounts related to (1) contracts not involving the purchase of inventories, such as advertising and the noncancelable portion of service or maintenance agreements, (2) capital expenditures for approved projects and (3) components of Other Liabilities, as presented and classified as noncurrent liabilities in VF's Consolidated Balance Sheet, that will require the use of cash. Projected cash requirements for components of Other Liabilities include (1) portions of those liabilities recorded in Current Liabilities, (1) discretionary funding contributions to our pension plan trust of $55 million per year through 2009 based on information provided by our independent actuary and management's current intent and (3) payments of deferred compensation and other employee-related benefits based on forecasted activity and prior experience.

We have other financial commitments at the end of 2004 that may require the use of funds under certain circumstances:

- Shares of Series B Redeemable Preferred Stock have been issued to participants as matching contributions under the Employee Stock Ownership Plan ("ESOP"). If requested by the trustee of the ESOP, VF has an obligation to redeem Preferred Stock held in participant accounts and to pay each participant the value of his or her account. The amounts of these redemptions vary based on the conversion value of the Preferred Stock. In 2004 and 2003, no funds were required as the ESOP trustee elected to convert the Preferred Stock of withdrawing participants into shares of Common Stock. Payments made for redemption of Preferred Stock were $5.8 million in 2002.
- VF has entered into $80.5 million of surety bonds and standby letters of credit representing contingent guarantees of performance under self-insurance and other programs. These commitments would only be drawn upon if VF were to fail to meet its claims obligations.

Management believes that VF's cash balances and funds provided by operations, as well as unused committed bank credit lines, additional borrowing capacity and access to equity markets, taken as a whole, provide (1) adequate liquidity to meet all of its obligations when due, (2) adequate liquidity to fund capital expenditures and to maintain our dividend payout policy and (3) flexibility to meet investment opportunities that may arise. Specifically, we believe VF has adequate liquidity to repay the $100.0 million and $300.0 million of long-term debt obligations due in June and October 2005, respectively.

Risk Management

VF is exposed to a variety of market risks in the ordinary course of business. We regularly assess these potential risks and manage our exposures to these risks through our operating and financing activities and, when appropriate, by utilizing natural hedges and by creating offsetting positions through the use of derivative financial instruments. Derivative financial instruments are contracts in which the payments are linked to changes in currency exchange rates, interest rates or other financial measures. We do not use derivative financial instruments for trading or speculative purposes.

We limit the risk of interest rate fluctuations on net income and cash flows by managing our mix of fixed and variable interest rate debt. In addition, we may also use derivative financial instruments to minimize our interest rate risk. Since our long-term debt has fixed interest rates, our primary interest rate exposure relates to changes in interest rates on short-term borrowings, which averaged $96 million during 2004. However, any change in interest rates would also affect interest income earned on VF's cash equivalents on deposit. Based on average amounts of short-term borrowings and of cash on deposit during 2004, the effect of a hypothetical 1.0% change in interest rates on reported net income would not be material.

Approximately 23% of our business is conducted in international markets. Our foreign businesses operate in functional currencies other than the United States dollar (except in Turkey, where we use the United States dollar because of the high inflation rate in that country). Assets and liabilities in these foreign businesses are subject to fluctuations in foreign currency exchange rates. Investments in these primarily European and Latin American businesses are considered to be long-term investments, and accordingly, foreign currency translation effects on those net assets are included in a component of Accumulated Other Comprehensive Income (Loss) in Common Stockholders' Equity. We do not hedge these net investments and do not hedge the translation of foreign currency operating results into the United States dollar.

A growing percentage of the total product needs to support our businesses are manufactured in our plants in foreign countries or by independent foreign contractors. We monitor net foreign currency market exposures and may in the ordinary course of business enter into foreign currency forward exchange contracts to hedge specific foreign currency transactions or anticipated cash flows. Use of these financial instruments allows us to reduce VF's overall exposure to exchange rate movements, since gains and losses on these contracts will offset losses and gains on the transactions being hedged. Our practice is to hedge a portion of our net foreign currency cash flows (relating to cross-border inventory purchases and production costs, product sales and intercompany royalty payments anticipated during the following 12 months) by buying or selling United States dollar contracts against various currencies.

If there were a hypothetical adverse change in foreign currency exchange rates of 10% relative to the United States dollar, the expected effect on the fair value of the hedging contracts outstanding at the end of 2004 would be approximately $23 million. Based on changes in the timing and amount of foreign currency exchange rate movements, actual gains and losses could differ.

VF is exposed to market risks for the pricing of cotton and other fibers, which indirectly affects fabric prices. We manage our fabric prices by ordering denim and other fabrics several months in advance, but we have not historically managed commodity price exposures by using derivative instruments.

VF has nonqualified deferred compensation plans in which liabilities accrued for the plans' participants are based on market values of investment funds that are selected by the participants. The risk of changes in the market values of the participants' underlying investment selections is hedged by VF's investments in a portfolio of securities that substantially mirrors the investment selections underlying the deferred compensation liabilities. These VF-owned investment securities are held in irrevocable trusts. Increases and decreases in deferred compensation liabilities are substantially offset by corresponding increases and decreases in the market value of VF's investments, resulting in a negligible net exposure to our operating results and financial position.

STOCK-BASED COMPENSATION; CHANGE IN ACCOUNTING POLICY EFFECTIVE IN 2005

We are currently evaluating FASB Statement No. 123 (R), *Share-Based Payment,* which was issued in late 2004. This Statement requires that the cost of stock options, based on the fair value of such options at the date of grant, be recognized as compensation expense over the vesting period. This Statement also changes the method of expense recognition for our performance-based restricted stock units.

The new Statement, which must be adopted no later than the beginning of the third quarter of 2005, has two methods of adoption. VF may elect to recognize compensation expense for options granted prior to but not vested as of the date of adoption, in which case prior periods would remain unchanged and pro forma disclosures would continue to be provided for those periods. Alternatively, VF may elect to restate either all prior periods presented, or all periods since the beginning of 2005, by recognizing compensation expense in the amounts previously reported in the pro forma disclosures.

Management has not yet determined which method of adoption it will use for the new Statement. The estimated effect of adopting the new rules for all unvested stock options and other stock-based compensation will be to reduce reported earnings per share by approximately $0.05 for each quarter of 2005 following adoption. In addition, if the first method above is selected, we would record a noncash charge at the date of adoption for the cumulative effect of applying the new rules for all unvested stock options, which we estimate to be approximately $0.10 per share. Although the new rules will result in a reduction in future earnings, there will be no impact on total Common Stockholders' Equity.

As described in Note A to the Consolidated Financial Statements, in accordance with applicable accounting pronouncements to date, compensation expense has not been recognized for stock options but has been recorded for other forms of equity compensation. If compensation expense in 2004 and prior years had been recognized for stock options based on the fair value-based method, reported earnings per share would have been reduced by $0.11 in 2004 and $0.12 in 2003. The pro forma effect in 2004 was slightly less than 2003 due primarily to the reduced number of stock options granted in 2004, offset in part by the higher fair value of those options.

Compensation expense recorded in the financial statements for performance-based restricted stock units was $0.06 per share in 2004, compared with $0.01 per share in 2003. Compensation expense increased for these performance-based restricted stock units during 2004 due to (1) a shift in the overall mix of long-term executive compensation, with an increased number of restricted stock units granted in 2004 offset by a reduced number of stock options granted, (2) the increased price of VF Common Stock and (3) the high level of performance relative to targets previously established by the Compensation Committee of the Board of Directors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have chosen accounting policies that we believe are appropriate to accurately and fairly report VF's operating results and financial position in conformity with accounting principles generally accepted in the United States. We apply these accounting policies in a consistent manner. Our significant accounting policies are summarized in Note A to the Consolidated Financial Statements.

The application of these accounting policies requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. These estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. We evaluate these estimates and assumptions on an ongoing basis and may retain outside consultants to assist in our evaluation. If actual results ultimately differ from previous estimates, the revisions are included in results of operations in the period in which the actual amounts become known.

We believe the following accounting policies involve the most significant management judgments and estimates used in preparation of our Consolidated Financial Statements or are the most sensitive to change from outside factors. We have discussed the application of these critical accounting policies and estimates with the Audit Committee of our Board of Directors.

- **Inventories –** Our inventories are stated at the lower of cost or market value. Cost includes all material, labor and overhead costs incurred to manufacture or purchase the finished goods. We review all of our inventory each quarter on the basis of individual style-size-color stockkeeping units ("SKUs") to identify excess or slow moving products, discontinued and to-be-discontinued products, and off-quality merchandise. This review covers inventory on hand, as well as current production or purchase commitments. For those units in inventory that are so identified, we estimate their market value or expected selling price based on historical and current realization trends. This evaluation, performed using a systematic and consistent methodology, requires forecasts of future demand, market conditions and selling prices. If the forecasted selling price is less than cost, we provide an allowance to reflect the lower value of that inventory. This methodology recognizes inventory exposures, on an individual SKU basis, at the time such losses are evident rather than at the time goods are actually sold.

- **Long-lived assets –** Our depreciation policies for our property, plant and equipment and our amortization policies for our definite-lived intangible assets reflect judgments on the estimated economic lives of these assets. We review these assets for possible impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. We measure recoverability of the carrying value of these assets by comparison with undiscounted cash flows expected to be generated by the assets. These evaluations have not resulted in any significant impairment adjustments during the past three years.

In connection with our adoption of FASB Statement No. 142, *Goodwill and Other Intangible Assets,* as of the beginning of 2002, we performed a review of our goodwill for possible impairment. The review required that we estimate the fair value of our business units having goodwill. Fair value was based on the present value of expected future cash flows, which required judgment and estimation about future market conditions, future sales and profitability, and a discount rate commensurate with the risk inherent in each business unit. We engaged an independent valuation firm to assist us in determining the fair value of these business units. The write-down resulting from this review was recorded as the cumulative effect of a change in accounting policy as of the beginning of 2002.

This Statement also requires us to reevaluate goodwill and indefinite-lived intangible assets in all business units at least annually or more frequently if there is an indication of possible impairment. For 2004 and 2003, the indicated fair value of the goodwill and indefinite-lived intangible assets in the respective business units exceeded the carrying amount of those assets. In 2002, we determined that $2.3 million of goodwill in our VF Playwear business unit was impaired and, accordingly, recorded an impairment charge for that amount.

We recorded Property, Plant and Equipment and Intangible Assets acquired in our 2004 Acquisitions and in our 2003 acquisition of Nautica at the fair value of those assets. We engage an independent valuation firm to assist us in assigning fair values to our acquired Intangible Assets and, as necessary, other assets.

- **Pension obligations** – VF sponsors defined benefit pension plans as a key retirement benefit for most domestic employees. Since pension obligations will ultimately be settled far in the future, determination of accumulated and projected pension benefit liabilities and of our annual pension expense is subject to assumptions and estimation. The principal assumptions are summarized in Note N to the Consolidated Financial Statements. We review these assumptions annually and modify them based on current rates and trends. Actual results may vary from the actuarial assumptions used.

One of the critical assumptions used in the actuarial model is the discount rate. The discount rate is used to estimate the present value of our accumulated and projected benefit obligations at each valuation date. We evaluate our discount rate assumption each year and adjust it as necessary based on current market interest rates. For our September 30, 2004 valuation, we decided, in consultation with our independent actuary, to refine our approach for selecting a discount rate. We changed to a method of estimating our discount rate based on matching high quality corporate bond yields to the expected benefit payments and duration of obligations for participants in our pension plans. Previously, we had estimated our discount rate by reference to the Moody's Aa bond index. This change was prompted by a significant change in the composition of bonds in the Moody's Aa bond index during 2004, resulting in (1) a yield for the revised index differing significantly from other high quality bond indices and (2) the index becoming less reflective of our expected pension payments. We believe our 2004 discount rate of 6.10% appropriately reflects current market conditions and the long-term nature of projected benefit payments to participants of our pension plans. Further, the discount rate for our plans may be higher than rates used for plans at some other companies because of our plans' higher percentage of females with a longer life expectancy and higher percentage of inactive participants with vested benefits who will not begin receiving benefits for many years.

Another critical assumption of the actuarial model is the expected long-term rate of return on investment assets in our pension trust. Because the rate of return is a long-term assumption, it generally does not change each year. This rate, determined in consultation with our independent actuary, is based on several factors, including the plan's mix of investment assets, historic and projected market returns on those assets and current market conditions. We had been using an 8.75% return assumption during 2003 and 2002, which was less than our actual compounded annual return over the preceding 15 years. Based on a current evaluation of the factors mentioned above, our investment return assumption was reduced to 8.50% for 2004 and 2005.

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

	Increase (Decrease) in	
Dollars in millions	Pension Expense	PBO
0.50% decrease in discount rate	$ 14	$ 78
0.50% increase in discount rate	(13)	(73)
0.50% decrease in expected investment return	4	
0.50% increase in expected investment return	(4)	

Differences between actual results and actuarial assumptions are accumulated and amortized over future periods. During the last several years, actual results have differed significantly from actuarial assumptions, resulting in $267.7 million of accumulated net unrecognized losses at our 2004 valuation date. These accumulated losses arose because (1) our pension plan liabilities increased substantially as a result of the overall decline in the discount rate from 8.00% in 2000 to 6.10% in 2004 and (2) although our actual investment return on pension plan assets exceeded the actuarially assumed rate in 2003 and 2004, significant investment losses were incurred in 2002 and 2001 due to the overall decline in the securities markets. Our policy is to amortize these unrecognized gains and losses to pension expense, as follows: amounts totaling less than 10% of the lower of investment assets or PBO at the beginning of the year are not amortized; amounts totaling 10% to 20% of PBO are amortized over 10 years; and amounts in excess of 20% of PBO are amortized over five years.

The cost of pension benefits earned by our employees (commonly called "service cost") has averaged $19.7 million per year over the last three years. However, pension expense recognized in our financial statements has significantly exceeded the average annual service cost. Our recorded pension expense for continuing operations was $57.8 million (including a $7.1 million partial plan curtailment charge) in 2004, compared with $55.7 million in 2003 and $26.2 million in 2002 (including a $2.4 million curtailment charge). Both the 2004 and the 2003 expense were higher than the average annual service cost because those years included a significant cost component for amortization of accumulated net unrecognized losses. For 2005, our pension expense is expected to be approximately $44 million.

Our accumulated benefit obligations exceeded the fair value of plan assets at our most recent valuation date. Accordingly, we have recorded a minimum pension liability of $157.0 million (net of a prepaid pension asset). The amount of the liability, along with the related charge to Common Stockholders' Equity, could change significantly in future years depending on securities market fluctuations affecting actual earnings of the pension plan assets, interest rates and the level of VF contributions to the plan. To improve the funded status of the plan, we have increased our level of contributions to the plan, with cash contributions of $55.0 million in January 2005 and 2004 and $75.0 million in 2003.

Effective December 31, 2004, VF's domestic defined benefit plans were amended to close the existing plans to new entrants. The amendments did not affect the benefits of current plan participants or their accrual of future benefits. Domestic employees hired after that date, plus employees at recently acquired businesses not covered by those plans, will participate in a new defined contribution arrangement with VF contributing amounts based on a percentage of eligible compensation. Funds contributed under this new arrangement will be invested as directed by the participants. This new defined contribution feature will not have an impact on the 2005 expense for our defined benefit pension plans. Over a period of years, however, the expense of our defined benefit plans is expected to decline

as a percentage of our total retirement benefit expense. In addition, the year-to-year variability of our retirement benefit expense should also decrease.

- **Restructuring charges** – We have provided restructuring charges related to actions taken to reduce our manufacturing, marketing and administrative cost structure and to exit underperforming businesses. We have also recognized liabilities at newly acquired businesses related to our intent to exit certain activities or positions as we integrate the operations of the acquired businesses with those of VF. These liabilities relate primarily to workforce reduction and consolidation and elimination of facilities. Severance and related charges are accrued based on estimates of amounts that will be paid to affected employees. Asset impairment charges related to consolidation or closure of manufacturing or distribution facilities are based on estimates of expected sales proceeds for the real estate and equipment. Plans to exit facilities may result in charges for lease termination and losses for future lease payments, net of estimated sublease income. Losses may also result from termination of existing contracts.

  We reassess these liabilities at the end of each reporting period. If circumstances change, causing current estimates to differ from prior estimates, adjustments are recorded in the period of change.

- **Income taxes** – VF's income tax returns are regularly examined by federal, state and foreign tax authorities. These audits may result in proposed adjustments. We, in consultation with our independent advisers, have reviewed all issues raised upon examination and other possible exposures and have recorded amounts that reflect our best estimates of the probable outcomes related to these matters. We do not anticipate any material impact on earnings from their ultimate resolution.

  We have recorded deferred income tax assets related to operating loss carryforwards and, when necessary, have recorded valuation allowances to reduce those assets to amounts expected to be ultimately realized. An adjustment to income tax expense would be required in a future period if we determine that the amount of deferred tax assets to be realized differs from the net recorded amount.

  We have not provided United States income taxes on a portion of our foreign subsidiaries' undistributed earnings because we intend to invest those earnings indefinitely. If we were to decide to remit those earnings to the United States in a future period, our provision for income taxes could increase in that period. The American Jobs Creation Act of 2004 contained provisions for a temporary incentive for repatriation of foreign earnings during 2005. We are evaluating our foreign undistributed earnings and studying the impact of the changes in tax law. If we were to decide to remit some or all of these earnings, the incremental income tax expense related to the repatriation would be recognized in 2005, along with any effects on our deferred income tax assets and liabilities.

  The balance sheet classifications and amounts of accrued and deferred income taxes related to assets and liabilities of acquired companies were based on assumptions that could change depending on the ultimate resolution of certain tax matters. Since these income tax accruals and deferrals were established in the allocation of the purchase price of the acquired businesses, future changes in these amounts could result in adjustments to Goodwill.

Cautionary Statement on Forward-Looking Statements

From time to time, we may make oral or written statements, including statements in this Annual Report, that constitute "forward-looking statements" within the meaning of the federal securities laws. These include statements concerning plans, objectives, projections and expectations relating to VF's operations or economic performance, and assumptions related thereto.

Forward-looking statements are made based on our expectations and beliefs concerning future events impacting VF and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and actual results could differ materially from those expressed or implied in the forward-looking statements.

Important factors that could cause the actual results of operations or financial condition of VF to differ include, but are not limited to, the overall level of consumer spending for apparel; changes in trends in the segments of the market in which VF competes; ongoing selling price and cost pressures in the worldwide apparel industry; financial strength and competitive conditions, including consolidation, of our customers and of our suppliers; actions of competitors, customers, suppliers, service providers and licensees that may impact VF's business; our ability to make and integrate acquisitions successfully; our ability to achieve expected sales and earnings growth from ongoing businesses and acquisitions; our ability to achieve planned cost savings; terrorist actions; natural disasters; and the impact of economic and political factors in the markets where VF competes or from which VF imports products, such as recession or changes in interest rates, currency exchange rates, price levels, capital market valuations and other factors over which we have no control.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

VF's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). VF's management conducted an assessment of VF's internal control over financial reporting based on the framework described in *Internal Control - Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, VF's management has determined that VF's internal control over financial reporting was effective as of January 1, 2005.

Management's assessment of the effectiveness of VF's internal control over financial reporting as of January 1, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of VF Corporation

We have completed an integrated audit of VF Corporation's January 1, 2005 consolidated financial statements and of its internal control over financial reporting as of January 1, 2005 and audits of its January 3, 2004 and January 4, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, cash flows and common stockholders' equity present fairly, in all material respects, the financial position of VF Corporation and its subsidiaries at January 1, 2005 and January 3, 2004, and the results of their operations and their cash flows for each of the three fiscal years ended January 1, 2005, January 3, 2004 and January 4, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, appearing on page 68 of the 2004 Annual Report to Stockholders, that the Company maintained effective internal control over financial reporting as of January 1, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Greensboro, North Carolina
March 7, 2005

CONSOLIDATED BALANCE SHEETS

In thousands, except share amounts	December 2004	December 2003
ASSETS		
Current Assets		
Cash and equivalents	$ 485,507	$ 514,785
Accounts receivable, less allowance for doubtful accounts of $60,790 in 2004 and $65,769 in 2003	751,582	633,863
Inventories	973,248	932,985
Deferred income taxes	99,338	92,828
Other current assets	68,893	34,070
Total current assets	2,378,568	2,208,531
Property, Plant and Equipment	572,254	591,680
Intangible Assets	639,520	318,634
Goodwill	1,031,594	700,972
Deferred Income Taxes	12,476	117,436
Other Assets	369,866	308,299
	$ 5,004,278	$ 4,245,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 42,830	$ 33,948
Current portion of long-term debt	401,232	1,144
Accounts payable	369,937	315,219
Accrued liabilities	558,215	438,939
Total current liabilities	1,372,214	789,250
Long-term Debt	556,639	956,383
Other Liabilities	536,131	518,625
Commitments and Contingencies		
Redeemable Preferred Stock	26,053	29,987
Common Stockholders' Equity		
Common Stock, stated value $1; shares authorized, 300,000,000; shares outstanding, 111,388,353 in 2004 and 108,170,091 in 2003	111,388	108,170
Additional paid-in capital	1,087,641	964,990
Accumulated other comprehensive income (loss)	(113,071)	(189,455)
Retained earnings	1,427,283	1,067,602
Total common stockholders' equity	2,513,241	1,951,307
	$ 5,004,278	$ 4,245,552

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

In thousands, except per share amounts	Year Ended December 2004	2003	2002
Net Sales	$ 6,054,536	$ 5,207,459	$ 5,083,523
Costs and Operating Expenses			
Cost of goods sold	3,644,255	3,262,375	3,254,008
Marketing, administrative and general expenses	1,676,769	1,331,814	1,229,902
Royalty income and other	(44,276)	(31,619)	(24,587)
Goodwill impairment	–	–	2,276
	5,276,748	4,562,570	4,461,599
Operating Income	777,788	644,889	621,924
Other Income (Expense)			
Interest income	7,151	11,456	7,397
Interest expense	(76,087)	(61,368)	(71,325)
Miscellaneous, net	3,268	3,529	3,732
	(65,668)	(46,383)	(60,196)
Income from Continuing Operations before Income Taxes	712,120	598,506	561,728
Income Taxes	237,418	200,573	197,300
Income from Continuing Operations	474,702	397,933	364,428
Discontinued Operations	–	–	8,283
Cumulative Effect of a Change in Accounting Policy	–	–	(527,254)
Net Income (Loss)	$ 474,702	$ 397,933	$ (154,543)
Earnings (Loss) Per Common Share – Basic			
Income from continuing operations	$ 4.30	$ 3.67	$ 3.26
Discontinued operations	–	–	.08
Cumulative effect of a change in accounting policy	–	–	(4.83)
Net income (loss)	4.30	3.67	(1.49)
Earnings (Loss) Per Common Share – Diluted			
Income from continuing operations	$ 4.21	$ 3.61	$ 3.24
Discontinued operations	–	–	.07
Cumulative effect of a change in accounting policy	–	–	(4.69)
Net income (loss)	4.21	3.61	(1.38)
Cash Dividends Per Common Share	$ 1.05	$ 1.01	$ .97

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands	Year Ended December 2004	2003	2002
NET INCOME (LOSS)	$ 474,702	$ 397,933	$ (154,543)
OTHER COMPREHENSIVE INCOME (LOSS)			
Foreign currency translation			
Amount arising during year	61,716	89,000	40,693
Less income tax effect	(31,647)	(40,157)	(15,252)
Minimum pension liability adjustment			
Amount arising during year	65,969	(52,691)	(205,080)
Less income tax effect	(24,257)	20,335	78,239
Derivative financial instruments			
Amount arising during year	(9,924)	(14,492)	(15,802)
Less income tax effect	3,802	5,536	6,168
Reclassification to net income for losses realized	8,803	15,817	280
Less income tax effect	(3,372)	(6,042)	(107)
Unrealized gains and losses on marketable securities			
Amount arising during year	9,808	13,730	(3,184)
Less income tax effect	(3,842)	(5,369)	1,255
Reclassification to net income for (gains) losses realized	(1,105)	(1,613)	2,763
Less income tax effect	433	632	(1,074)
COMPREHENSIVE INCOME (LOSS)	$ 551,086	$ 422,619	$ (265,644)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands	Year Ended December 2004	2003	2002
OPERATING ACTIVITIES			
Net income (loss)	$ 474,702	$ 397,933	$ (154,543)
Adjustments to reconcile net income (loss) to cash provided by operating activities of continuing operations:			
Discontinued operations	–	–	(8,283)
Cumulative effect of a change in accounting policy	–	–	527,254
Restructuring costs	–	–	26,342
Depreciation	110,868	104,463	107,398
Amortization and impairment	29,849	13,675	16,285
Provision for doubtful accounts	3,516	11,197	18,490
Pension funding in excess of expense	(236)	(21,785)	3,770
Deferred income taxes	16,172	30,961	70,849
Stock-based compensation	10,956	1,584	1,003
Other, net	20,984	12,543	(12,990)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(20,301)	47,502	(24,077)
Inventories	51,450	61,596	43,253
Other current assets	(19,006)	22,865	(135)
Accounts payable	3,812	(60,636)	54,123
Accrued compensation	48,897	(42,823)	28,697
Other accrued liabilities	(1,407)	(35,371)	(51,852)
Cash provided by operating activities of continuing operations	730,256	543,704	645,584
INVESTING ACTIVITIES			
Capital expenditures	(81,410)	(86,619)	(64,503)
Business acquisitions, net of cash acquired	(655,089)	(578,038)	(1,342)
Software purchases	(13,018)	(12,775)	(12,141)
Sale of property, plant and equipment	12,900	17,964	25,731
Sale of VF Playwear business	4,517	–	–
Other, net	(103)	(51)	7,675
Cash used by investing activities of continuing operations	(732,203)	(659,519)	(44,580)
FINANCING ACTIVITIES			
Decrease in short-term borrowings	(19,056)	(30,080)	(16,586)
Proceeds from long-term debt	–	292,110	–
Payments on long-term debt	(3,494)	(16,183)	(301,564)
Purchase of Common Stock	–	(61,400)	(124,623)
Cash dividends paid	(117,731)	(111,258)	(108,773)
Proceeds from issuance of Common Stock	106,613	32,631	39,753
Other, net	(730)	(510)	(8,290)
Cash provided (used) by financing activities of continuing operations	(34,398)	105,310	(520,083)
NET CASH PROVIDED (USED) BY DISCONTINUED OPERATIONS	(3,320)	(1,417)	69,899
EFFECT OF FOREIGN CURRENCY RATE CHANGES ON CASH	10,387	30,340	13,498
NET CHANGE IN CASH AND EQUIVALENTS	(29,278)	18,418	164,318
CASH AND EQUIVALENTS – BEGINNING OF YEAR	514,785	496,367	332,049
CASH AND EQUIVALENTS – END OF YEAR	$ 485,507	$ 514,785	$ 496,367

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

In thousands	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
Balance, December 2001	$ 109,998	$ 884,638	$ (103,040)	$ 1,221,200
Net loss	–	–	–	(154,543)
Cash dividends:				
Common Stock	–	–	–	(106,018)
Series B Redeemable Preferred Stock	–	–	–	(2,755)
Tax benefit from Preferred Stock dividends	–	–	–	12
Redemption of Preferred Stock	–	–	–	(5,780)
Conversion of Preferred Stock	182	–	–	3,332
Purchase of treasury shares	(3,000)	–	–	(121,623)
Stock compensation plans, net	1,345	45,494	–	(381)
Common Stock held in trust for deferred compensation plans	–	–	–	(112)
Foreign currency translation	–	–	25,441	–
Minimum pension liability adjustment	–	–	(126,841)	–
Derivative financial instruments	–	–	(9,461)	–
Unrealized losses on marketable securities	–	–	(240)	–
Balance, December 2002	108,525	930,132	(214,141)	833,332
Net income	–	–	–	397,933
Cash dividends:				
Common Stock	–	–	–	(109,020)
Series B Redeemable Preferred Stock	–	–	–	(2,238)
Conversion of Preferred Stock	358	–	–	6,556
Purchase of treasury shares	(1,680)	–	–	(59,720)
Stock compensation plans, net	943	34,858	–	(333)
Common Stock held in trust for deferred compensation plans	24	–	–	1,092
Foreign currency translation	–	–	48,843	–
Minimum pension liability adjustment	–	–	(32,356)	–
Derivative financial instruments	–	–	819	–
Unrealized gains on marketable securities	–	–	7,380	–
Balance, December 2003	108,170	964,990	(189,455)	1,067,602
Net income	**–**	**–**	**–**	**474,702**
Cash dividends:				
Common Stock	**–**	**–**	**–**	**(115,900)**
Series B Redeemable Preferred Stock	**–**	**–**	**–**	**(1,831)**
Conversion of Preferred Stock	**205**	**–**	**–**	**3,729**
Stock compensation plans, net	**3,026**	**122,651**	**–**	**(273)**
Common Stock held in trust for deferred compensation plans	**(13)**	**–**	**–**	**(746)**
Foreign currency translation	**–**	**–**	**30,069**	**–**
Minimum pension liability adjustment	**–**	**–**	**41,712**	**–**
Derivative financial instruments	**–**	**–**	**(691)**	**–**
Unrealized gains on marketable securities	**–**	**–**	**5,294**	**–**
Balance, December 2004	**$ 111,388**	**$ 1,087,641**	**$ (113,071)**	**$ 1,427,283**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 2004

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Description of Business: VF Corporation ("VF") is a multinational consumer apparel company based in the United States ("U.S."). VF, through its subsidiaries, designs and manufactures or sources from independent contractors a variety of apparel for all ages. VF has significant market shares in jeanswear, sportswear, intimate apparel and outdoor apparel marketed primarily under VF-owned brand names. VF is also a leader in occupational apparel and in daypacks, backpacks and technical outdoor equipment.

VF markets these products to a broad customer base of specialty, department and discount stores throughout the world. VF's ten largest customers, all U.S.-based retailers, accounted for 38% of consolidated 2004 sales and 29% of total accounts receivable at the end of 2004. Sales are made on an unsecured basis under customary terms that may vary by channel of distribution or by geographic region. VF continuously monitors the creditworthiness of its customers and has established internal policies regarding customer credit limits. The breadth of product offerings, combined with the large number and geographic diversity of its customers, limits VF's concentration of risks.

Fiscal Year and Basis of Presentation: VF operates and reports using a 52/53 week fiscal year ending on the Saturday closest to December 31 of each year. All references to "2004", "2003" and "2002" relate to the fiscal years ended on January 1, 2005 (52 weeks), January 3, 2004 (52 weeks) and January 4, 2003 (53 weeks), respectively. For presentation purposes herein, all fiscal years are presented as ended in December.

The financial position, results of operations and cash flows of two businesses that were disposed of during 2002 have been presented as discontinued operations for all periods. See Note C.

Principles of Consolidation: The consolidated financial statements include the accounts of VF and its wholly-owned and majority-owned subsidiaries, after elimination of intercompany transactions and profits. Minority ownership interests are not significant. Investments in 50%-owned joint ventures, in which VF does not exercise control, are accounted for using the equity method of accounting.

Foreign Currency Translation: Financial statements of most foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities denominated in a foreign currency are translated into U.S. dollars using exchange rates in effect at the balance sheet date, and revenues and expenses are translated at average exchange rates during the year. Translation gains and losses are reported in Accumulated Other Comprehensive Income (Loss). For foreign subsidiaries that use the U.S. dollar as their functional currency, the effects of remeasuring assets and liabilities into U.S. dollars is included in the Consolidated Statements of Income. Net transaction gains of $0.5 million in 2004, $5.3 million in 2003 and $3.1 million in 2002 arising from transactions denominated in a currency other than the functional currency of a particular entity are included in the Consolidated Statements of Income.

Cash and Equivalents includes demand deposits and temporary investments that are readily convertible into cash and will mature within three months of their purchase.

Accounts Receivable and Allowance for Doubtful Accounts: Trade accounts receivable are recorded at invoiced amounts, less amounts accrued for returns, discounts and sales incentive programs. Royalty receivables are recorded at amounts earned based on sales of licensed products, subject in some cases to minimum amounts from individual licensees. VF maintains an allowance for doubtful accounts for estimated losses resulting from the inability of customers and licensees to make required payments. All accounts are subject to ongoing review for ultimate collectibility. An allowance is provided for specific customer accounts where collection is doubtful and for the inherent risk in ultimate collectibility of total balances due at any point in time. Receivables are charged off against the allowance when it is probable the amounts will not be recovered. There is no off-balance sheet credit exposure related to customer receivables.

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out ("FIFO") method for 71% of total 2004 inventories and 66% of total 2003 inventories. For remaining inventories, cost is determined on the last-in, first-out ("LIFO") method (primarily due to Internal Revenue Service conformity requirements where LIFO is used for income tax purposes). The LIFO method is used for jeanswear, wholesale sportswear and occupational apparel inventories located in the United States and Canada. The value of inventories stated on the LIFO method is not significantly different from the value determined under the FIFO method.

Long-lived Assets: Property, plant and equipment and intangible assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 10 years for machinery and equipment and up to 40 years for buildings. Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term. Intangible assets, other than those having indefinite lives, are amortized over their estimated useful lives using straight-line or accelerated methods consistent with the expected realization of benefits to be received. The useful lives of property and intangible assets are reviewed annually.

VF's policy is to evaluate property, intangible assets and goodwill for possible impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss is recorded for property or intangible assets with identified useful lives (and therefore are being amortized) if projected undiscounted cash flows to be generated by the asset or asset group are not expected to be adequate to recover the assets' carrying value. An impairment loss is recorded for intangible assets with indefinite lives (and therefore are not being amortized) or goodwill if the assets' carrying value is in excess of its fair value.

Goodwill represents the excess of costs over the fair value of net tangible assets and identifiable intangible assets of businesses acquired. Effective at the beginning of 2002, VF adopted Financial Accounting Standards Board ("FASB") Statement No. 142, *Goodwill and Other Intangible Assets*. Under this Statement, goodwill and intangible assets with indefinite useful lives are not amortized, and other intangible assets are amortized over their estimated useful lives.

In adopting the Statement, VF engaged an independent valuation firm to assist management in its review of the fair value of its business units and, where there was an indication that the recorded amount of goodwill might be greater than its fair value, to assist management in determining the amount of the possible write-down in value. This evaluation indicated that recorded goodwill exceeded its fair value at several business units where performance had not met management's expectations at the time of their acquisition. The resulting write-downs of goodwill were attributable to differences between the fair value approach under this Statement and the undiscounted cash flow approach used under previous accounting literature. The amount of write-downs, and the business units accounting for the charges, are summarized by reportable segment as follows (in thousands):

BUSINESS SEGMENT	AMOUNT	BUSINESS UNIT
Jeanswear	$ 63,199	Latin American jeanswear
Intimate Apparel	109,751	European intimate apparel
Imagewear	295,128	Workwear and licensed knitwear
Other	59,176	Childrenswear

Accordingly, VF recorded a noncash charge of $527.3 million ($4.69 per diluted share), which was recognized as the Cumulative Effect of a Change in Accounting Policy in the Consolidated Statement of Income at the beginning of 2002. There was no income tax effect for this charge.

Accrued Self-insurance: VF is primarily self-insured for employee group medical, workers' compensation, vehicle, property and general liability exposures. Liabilities for self-insured exposures are accrued on a discounted basis, in consultation with an independent actuary, based on historical trends and actuarial data for projected settlements of claims filed and for incurred but not yet reported claims. Accruals for self-insured exposures are included in current and noncurrent liabilities based on the expected period of payment. Excess liability insurance has been purchased to cover claims in excess of self-insured amounts.

Revenue Recognition: Sales to wholesale customers are recognized when the risks and rewards of ownership have been transferred, which is when the product is received by the customer. Shipping and handling costs billed to customers are included in Net Sales. Allowances for estimated returns, discounts and sales incentive programs are recognized as reductions of sales when the sales are recorded. Sales incentive programs with retailers include stated discounts and discounts based on the retailer agreeing to advertise or promote VF products. Sales incentive programs directly with consumers include rebate and coupon offers. Allowances are based on customer commitments, specific product circumstances and historical claim rates. Sales at VF-owned and operated retail stores are recognized at the time of purchase of products by consumers.

Cost of Goods Sold for VF-manufactured goods includes all materials, labor and overhead costs incurred in the production process. Overhead allocated to manufactured product is based on the normal capacity of our plants and does not include amounts related to idle capacity or abnormal production inefficiencies. Cost of Goods Sold for contracted or purchased finished goods includes the purchase costs and related overhead. In both cases, overhead includes all costs related to obtaining the finished goods, including costs of planning, purchasing, quality control, freight and duties. For product lines having a lifetime warranty, a provision for estimated future repair or replacement costs, based on historical experience, is recorded when these products are sold.

Marketing, Administrative and General Expenses includes marketing and advertising, VF-operated retail store costs, warehousing, shipping and handling, administrative and general expenses. Advertising costs are expensed as incurred and totaled $314.1 million in 2004, $258.6 million in 2003 and $244.7 million in 2002. Advertising costs include cooperative advertising payments made to VF's customers as direct reimbursement of advertising costs incurred by those retailers for advertising VF's products. Cooperative advertising costs were $43.4 million in 2004, $42.0 million in 2003 and $40.0 million in 2002. Shipping and handling costs totaled $199.0 million in 2004, $183.3 million in 2003 and $177.0 million in 2002.

Royalty Income and Other: Royalty income is recognized at rates specified in the licensing contracts, based on the licensees' sales of licensed products. Royalty income was $49.9 million in 2004, $28.6 million in 2003 and $20.5 million in 2002, net of related expenses (including amortization of licensing intangible assets) of $18.2 million in 2004, $7.6 million in 2003 and $4.6 million in 2002. This category also includes the equity in income of 50%-owned joint ventures and, in 2004, charges of $9.5 million related to disposal of a business unit (Note C).

Income Taxes are provided on Net Income for financial reporting purposes. Income taxes are based on amounts of taxes payable or refundable in the current year and on expected future tax consequences of events that are recognized in financial statements in different periods than they are recognized in tax returns. As a result of timing of recognition and measurement differences between financial accounting standards and income tax laws, temporary differences arise between the amounts of pretax financial statement income and taxable income and between reported amounts of assets and liabilities in the Consolidated Balance Sheets and their respective tax bases. Net deferred income tax assets reported in the Consolidated Balance Sheets reflect estimated future tax effects attributable to these temporary differences and carryforwards, based on tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances are used to reduce these net deferred tax assets to amounts considered likely to be realized. U.S. deferred income taxes are not provided on undistributed income of foreign subsidiaries where such earnings are considered to be permanently invested. The provision for Income Taxes also includes estimated interest expense related to tax deficiencies and assessments.

Stock-based Compensation is accounted for under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees.* Compensation expense is not required for stock options, as all options have an exercise price equal to the market value of the underlying common stock at the date of grant. For grants of performance-based restricted stock units, compensation expense equal to the market value of the shares expected to be issued is recognized over the three year performance period being measured. For grants of restricted stock, compensation expense equal to the market value of the shares at the date of grant is recognized over the vesting period. The following table presents the effects on net income and earnings per share if VF had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation,* to all stock-based employee compensation:

In thousands, except per share amounts	2004	2003	2002
Net income (loss), as reported	$ 474,702	$ 397,933	$ (154,543)
Add employee compensation expense for performance-based restricted stock units and restricted stock included in reported net income, net of income taxes	6,793	990	627
Less total stock-based employee compensation expense determined under the fair value-based method, net of income taxes	(18,757)	(13,648)	(15,512)
Pro forma net income (loss)	$ 462,738	$ 385,275	$ (169,428)
Earnings (loss) per common share:			
Basic – as reported	$ 4.30	$ 3.67	$ (1.49)
Basic – pro forma	4.19	3.55	(1.63)
Diluted – as reported	$ 4.21	$ 3.61	$ (1.38)
Diluted – pro forma	4.10	3.49	(1.52)

Details of the stock compensation plans and of the fair value assumptions used above for stock options are described in Note P.

In the fourth quarter of 2004, the FASB issued Statement No. 123 (R), *Share-Based Payment.* This revision to Statement No. 123 requires that compensation expense be recognized for the fair value of stock options over their vesting period and changes the method of expense recognition for performance-based stock awards. The Statement is required to be adopted no later than the third quarter of 2005 and applies to all outstanding stock options and stock awards that have not yet vested at the date of adoption. Management is evaluating the effects of this Statement.

Derivative Financial Instruments are measured at their fair value and are recognized as Other Current Assets or Accrued Liabilities in the Consolidated Balance Sheets. VF formally documents hedged transactions and hedging instruments, and assesses, both at the inception of a contract and on an ongoing basis, whether the hedging instruments are effective in offsetting changes in cash flows of the hedged transactions. VF does not use derivative financial instruments for trading or speculative purposes.

If certain criteria are met, a derivative may be specifically designated and accounted for as (1) a hedge of the exposure to variable cash flows for a forecasted transaction or (2) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment. The criteria used to determine if hedge accounting treatment is appropriate are (1) to designate and identify the appropriate hedging instrument to be used to reduce an identified exposure and (2) to determine if there is a high correlation between the value of the hedging instrument and the identified exposure. Changes in the fair value of derivatives accounted for as cash flow hedges are deferred in Other Comprehensive Income and recognized in Net Income as an offset to the earnings impact of the hedged transaction at the time in which the hedged transaction affects earnings. Changes in the fair value of derivatives accounted for as fair value hedges are recognized in Miscellaneous Income or Expense as an offset to the earnings impact of the hedged item. The changes in fair value, as evaluated and adjusted each quarter, are deferred in Other Comprehensive Income or reported in earnings, depending on the nature and effectiveness of the hedged item or the risk. Any ineffectiveness in a hedging relationship is recorded immediately in earnings. For those limited number of derivatives that do not meet the criteria for hedge accounting, changes in fair value are recognized in Miscellaneous Income or Expense as they occur.

Reclassifications: Certain prior year amounts have been reclassified to conform with the 2004 presentation.

Legal and Tax Contingencies: VF is involved in legal and tax proceedings and claims arising from time to time. Management, in connection with outside advisers, periodically assesses liabilities and contingencies in connection with these matters, based on the latest information available. For those matters where it is probable that a loss has been or will be incurred, we record the loss, or a reasonable estimate of the loss, in the consolidated financial statements. As additional information becomes available, estimates of probable losses are adjusted based on an assessment of the circumstances. Management believes that the outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the consolidated financial statements.

Use of Estimates: In preparing financial statements in accordance with generally accepted accounting principles, management makes estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE B – ACQUISITIONS

During 2004, VF acquired the following four businesses for a total cash cost, including transaction costs, of $667.5 million (collectively referred to as the "2004 Acquisitions"):

- The most significant transaction was the acquisition on June 30, 2004 of 100% of the common stock of Vans, Inc. ("Vans") at a price of $20.55 per share, for a total cost of $373.1 million. Vans designs and markets *Vans*® performance and casual footwear and apparel for skateboarders and other action sports participants and enthusiasts. In its most recent fiscal year, Vans had sales of $344 million (unaudited), with sales being split approximately equally among domestic wholesale accounts, domestic retail stores and international operations.

- A subsidiary of VF acquired the operating assets of *Kipling*® bags, backpacks and accessories ("Kipling") on June 14, 2004. Including the acquisition of the brand rights in the United States in late 2004, the total cost was $185.0 million. Based in Belgium, Kipling had sales of $69 million (unaudited) in its most recent year.

- On May 31, 2004, VF acquired 100% of the common stock of Green Sport Monte Bianco S.p.A., makers of *Napapijri*® premium casual outdoor sportswear ("Napapijri"), for a total cost of $103.4 million. Based in Italy, Napapijri had sales of $76 million (unaudited) in its most recent year.

- VF acquired 51% ownership of a newly formed company in Mexico for $6.0 million. This company will market several of VF's intimate apparel brands, as well as the *Ilusión*® brand licensed from the minority partner, to discount stores and department stores in Mexico.

The Vans, Kipling and Napapijri businesses add lifestyle brands having global growth potential. Their brands are targeted to specific consumer groups, and their products extend across multiple categories. Vans and Kipling provide expertise and growth opportunities in two new product categories for VF – footwear and women's accessories. In addition, the sportswear design talent at Napapijri is being used to assist in the European launch of *Nautica*® apparel in 2005.

On August 27, 2003, VF acquired all of the common stock of Nautica Enterprises, Inc. ("Nautica") for a total cash cost of $587.6 million, including transaction costs. Nautica designs, sources and markets sportswear under the *Nautica*® brand. The *Nautica*® brand is licensed for apparel and accessories in the United States and internationally and for home furnishings in the United States. The Nautica acquisition (1) provided a growth platform for sportswear, which was a new product category for VF, (2) provided broader lifestyle product capabilities and (3) significantly expanded VF's presence in the department store and specialty store channels of distribution. The Nautica acquisition also included a chain of 115 *Nautica*® retail outlet stores, the premium *Earl Jean*® brand of jeans and sportswear and the *John Varvatos*® brand of designer sportswear. In a separate transaction, VF acquired from a former officer of Nautica his rights to receive 50% of Nautica's net royalty income, along with other rights in the *Nautica*® name, trademarks and intellectual property owned, held or used by Nautica. Under this agreement, VF paid $38.0 million at closing and will pay $33.0 million on each of the third and fourth anniversaries of the closing. The future amounts do not bear interest and were recorded at their present value of $58.3 million. As additional consideration, VF will pay 31.7% of Nautica's gross royalty revenues in excess of $34.7 million in any year through 2008, with such excess payments to be recorded as Goodwill. Gross royalty revenues were $33.7 million in 2004. The acquisitions of Nautica and of the former officer's rights are collectively referred to herein as the "Nautica Acquisition."

Operating results of these acquisitions have been included in the consolidated financial statements since their respective dates of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed for these transactions at their respective dates of acquisition. The purchase price allocation for the 2004 Acquisitions is subject to adjustment over the first half of 2005 as VF management finalizes their integration plans. In addition, management is awaiting information from outside counsel on litigation related to one of the acquisitions.

In thousands	2004 Acquisitions	Nautica Acquisition
Cash and equivalents	$ 59,899	$ 75,597
Other current assets	159,343	247,675
Property, plant and equipment	20,034	52,197
Intangible assets	323,500	319,700
Other assets	48,867	10,954
Total assets acquired	611,643	706,123
Current liabilities	171,979	172,751
Long-term debt	1,619	18,092
Other liabilities, primarily deferred income taxes	86,745	48,595
Total liabilities assumed	260,343	239,438
Net assets acquired	351,300	466,685
Goodwill	316,199	217,178
Purchase price	$ 667,499	$ 683,863

Amounts assigned to intangible assets were based on management's evaluation of their fair values, with assistance from an independent valuation firm. Management believes that amounts assigned to major trademarks and tradenames have an indefinite life. Amounts assigned to amortizable intangible assets for the 2004 Acquisitions totaled $90.4 million and consisted principally of $57.2 million of customer relationships and $24.4 million of licensing contracts. These assets were determined to have weighted average useful lives of 21 years and 8 years, respectively, and are being amortized primarily using accelerated methods. Amortizable intangible assets for the Nautica Acquisition totaled $102.3 million and consisted principally of $89.5 million of licensing contracts and $9.7 million of customer relationships. These assets have weighted average useful lives of 30 years and 24 years, respectively, and are being amortized using accelerated methods.

Factors that contributed to the recognition of Goodwill for the 2004 Acquisitions and the Nautica Acquisition included (1) expected growth rates and profitability of the acquired companies, (2) their experienced workforce, (3) VF's strategies for growth in sales, income and cash flows in the various wholesale, retail and licensing businesses and (4) expected synergies with existing VF business units. Goodwill of $48.0 million related to the 2004 Acquisitions and of $51.6 million related to the Nautica Acquisition is expected to be deductible for income tax purposes.

The following unaudited pro forma results of operations assume that the 2004 and the 2003 acquisitions had occurred at the beginning of 2003. These pro forma amounts should not be relied on as an indication of the results of operations that VF would have achieved had the acquisitions taken place at a different date or of future results that VF might achieve:

In thousands, except per share amounts	**2004***	2003*
Net sales	**$ 6,278,790**	$ 6,062,955
Net income	**460,311**	343,726
Earnings per common share:		
Basic	**$ 4.17**	$ 3.17
Diluted	**4.08**	3.12

* Pro forma operating results for 2004 include expenses totaling $59.6 million ($0.41 basic and $0.40 diluted per share) and for 2003 include expenses totaling $35.6 million ($0.24 basic and $0.23 diluted EPS) for settlement of stock options, management contracts and other transaction expenses incurred by the acquired businesses related to their acquisition by VF.

VF completed two other acquisitions during 2003 for a total consideration of $3.7 million. Contingent consideration of up to $1.3 million related to one of these acquisitions is payable if certain sales targets are achieved over each of the years through 2006. Accordingly, in each of 2004 and 2003, $0.3 million of contingent consideration was earned and capitalized as additional licensing intangible assets. Pro forma operating results for prior periods are not presented due to immateriality.

VF accrued various restructuring charges in connection with the 2003 and 2004 acquisitions. Remaining cash payments related to these actions will be substantially completed during 2005.

Activity in the restructuring accruals for the 2004 Acquisitions is summarized as follows:

In thousands	Severance	Facilities Exit Costs	Lease Termination	Total
Accrual for 2004 acquisitions	$ 24,562	$ 811	$ 1,593	$ 26,966
Cash payments	(20,667)	–	(176)	(20,843)
Balance, December 2004	$ 3,895	$ 811	$ 1,417	$ 6,123

Activity in the restructuring accruals for the 2003 acquisitions is summarized as follows:

In thousands	Severance	Facilities Exit Costs	Lease Termination	Total
Accrual for 2003 acquisitions	$ 6,564	$ 403	$ 13,603	$ 20,570
Cash payments	(520)	–	(655)	(1,175)
Balance, December 2003	6,044	403	12,948	19,395
Additional accrual	3,682	–	–	3,682
Write-off of assets	–	(376)	–	(376)
Cash payments	(4,322)	(27)	(12,948)	(17,297)
Balance, December 2004	$ 5,404	$ –	$ –	$ 5,404

NOTE C — DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In 2001, management announced a plan to exit the Private Label knitwear business and the Jantzen swimwear business. The *Jantzen®* trademarks and certain other assets of this swimwear business were sold in 2002 for $24.0 million. Liquidation of the Private Label knitwear business and of the remaining Jantzen inventories and other assets was completed during 2002. Both the Private Label knitwear and the Jantzen businesses are accounted for as discontinued operations in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Accordingly, the results of operations and cash flows of these businesses are separately presented as discontinued operations in the accompanying financial statements. Summarized operating results for these discontinued businesses for 2002 were net sales of $98.0 million; income before taxes of $13.5 million (including gain on disposal of $1.4 million); income taxes of $5.2 million; and income of $8.3 million.

VF's children's playwear business ("VF Playwear") consisted of the *Healthtex®* and licensed *Nike®* apparel products. Certain assets of VF Playwear were sold in May 2004 for cash and notes totaling $17.1 million. VF Playwear retained all inventories and other working capital and continued to ship products through the end of the third quarter. Under the sale agreement, VF agreed to purchase $150.0 million of branded childrenswear from the purchaser over a 10 year period for sale in its outlet stores. Due to this ongoing involvement, VF Playwear does not qualify for treatment as a discontinued operation. VF Playwear contributed sales of $87.1 million, $144.0 million and $175.5 million and operating losses of $(14.0) million, $(7.7) million and $(3.2) million in 2004, 2003 and 2002, respectively. Operating results include net charges of $9.5 million related to the disposal of the business in 2004 and a $2.3 million goodwill impairment charge in 2002.

Assets and liabilities of VF Playwear included in the respective captions of the Consolidated Balance Sheets are summarized as follows:

In thousands	2004	2003
Accounts receivable, net	$ 4,363	$ 12,958
Inventories	–	35,082
Property, plant and equipment, net	6,249	14,305
Other, primarily deferred income taxes	4,181	7,521
	$ 14,793	$ 69,866
Accounts payable	$ –	$ 11,162
Accrued liabilities	15,129	7,274
	$ 15,129	$ 18,436

At the end of 2004, Accrued Liabilities related primarily to expected losses on formerly occupied leased premises.

NOTE D — ACCOUNTS RECEIVABLE

In thousands	2004	2003
Trade	$ 758,882	$ 646,332
Other	53,490	53,300
Total accounts receivable	812,372	699,632
Less allowance for doubtful accounts	60,790	65,769
	$ 751,582	$ 633,863

NOTE E — INVENTORIES

In thousands	2004	2003
Finished products	$ 744,517	$ 714,867
Work in process	99,669	91,593
Materials and supplies	129,062	126,525
	$ 973,248	$ 932,985

NOTE F — PROPERTY, PLANT AND EQUIPMENT

In thousands	2004	2003
Land	$ 52,989	$ 52,124
Buildings and improvements	502,369	479,725
Machinery and equipment	984,132	1,027,997
	1,539,490	1,559,846
Less accumulated depreciation	967,236	968,166
	$ 572,254	$ 591,680

NOTE G — INTANGIBLE ASSETS

Dollars in thousands	Weighted Average Life	December 2004 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:*				
License agreements	25 years	$ 114,623	$ 7,343	$ 107,280
Customer relationships	21 years	71,305	2,797	68,508
Trademarks, backlog and other	6 years	13,111	7,646	5,465
Amortizable intangible assets, net				181,253
Indefinite-lived intangible assets:				
Trademarks and tradenames				458,267
Intangible assets, net				$ 639,520
		December 2003		
Amortizable intangible assets:*				
License agreements	30 years	$ 89,500	$ 1,148	$ 88,352
Customer relationships	24 years	10,200	233	9,967
Trademarks, backlog and other	5 years	5,090	2,175	2,915
Amortizable intangible assets, net				101,234
Indefinite-lived intangible assets:				
Trademarks and tradenames				217,400
Intangible assets, net				$ 318,634

* Amortization of license agreements and customer relationships – accelerated methods; other – straight-line method.

Amortization expense was $15.4 million in 2004 (including an impairment charge of $1.1 million for a miscellaneous intangible asset) and $3.6 million in 2003. Estimated amortization expense for the years 2005 through 2009 is $14.6 million, $14.2 million, $13.5 million, $10.4 million and $8.1 million, respectively.

NOTE H — GOODWILL

Activity is summarized by business segment as follows:

In thousands	Jeanswear Apparel	Outdoor Apparel and Equipment	Intimate Apparel	Imagewear	Sportswear	Other
Balance, December 2001	$ 253,841	$ 110,036	$ 221,343	$ 351,374	$ –	$ 61,452
Change in accounting policy (Note A)	(63,199)	–	(109,751)	(295,128)	–	(59,176)
Adjustments to purchase price allocation	(275)	(924)	–	–	–	–
Impairment loss (Note C)	–	–	–	–	–	(2,276)
Currency translation	6,038	–	–	–	–	–
Balance, December 2002	196,405	109,112	111,592	56,246	–	–
2003 acquisitions	–	–	–	–	217,178	–
Currency translation	10,439	–	–	–	–	–
Balance, December 2003	206,844	109,112	111,592	56,246	217,178	–
2004 acquisitions	–	310,175	6,000	–	24	–
Adjustments to purchase price allocation	–	–	–	–	(2,934)	–
Currency translation	4,411	12,946	–	–	–	–
Balance, December 2004	$ 211,255	$ 432,233	$ 117,592	$ 56,246	$ 214,268	$ –

NOTE I — OTHER ASSETS

In thousands	2004	2003
Investment securities held for deferred compensation plans	$ 167,715	$ 158,074
Other investment securities	45,116	36,800
Computer software, net of accumulated amortization of $45,057 in 2004 and $35,343 in 2003	63,810	61,499
Pension plan intangible asset (Note N)	46,960	17,919
Other	46,265	34,007
	$ 369,866	$ 308,299

Investment securities held for deferred compensation plans consist of marketable securities and life insurance contracts. These securities substantially mirror the participant-directed investment selections underlying the deferred compensation liabilities (Note M). These securities, held in an irrevocable trust, are recorded at fair value. Realized and unrealized gains and losses on these investment securities are recorded in the Consolidated Statements of Income and substantially offset changes in deferred compensation liabilities to participants.

Other investment securities are held primarily to support liabilities under the supplemental defined benefit pension plan (Note M). These securities, held in an irrevocable trust, are recorded at fair value. Realized gains and losses are recorded in the Consolidated Statements of Income, and unrealized gains and losses, net of income taxes, are recorded in Accumulated Other Comprehensive Income (Loss).

VF is the beneficiary of life insurance policies mentioned above on certain current and former members of VF management. Policy loans against the cash value of these policies are not significant.

NOTE J — SHORT-TERM BORROWINGS

Short-term borrowings, all from foreign banks, had a weighted average interest rate of 7.0% at the end of 2004 and at the end of 2003.

The Company maintains a $750.0 million unsecured committed revolving bank credit agreement that supports issuance of up to $750.0 million in commercial paper or is otherwise available for general corporate purposes. This agreement, which expires in September 2008, requires VF to pay a facility fee of .09% per year and contains a financial covenant requiring VF's ratio of consolidated indebtedness to consolidated capitalization to remain below 60%. The agreement also contains other covenants and events of default, including limitations on liens, subsidiary indebtedness and sales of assets, and a $50.0 million cross-acceleration event of default. If VF fails in the performance of any covenant under this agreement (after giving effect to any applicable grace period), the banks may terminate their obligation to lend, and any bank borrowings outstanding under this agreement may become due and payable. At the end of 2004, management believes that VF was in compliance with all covenants. Also at the end of 2004, the entire amount of the credit agreement was available for borrowing, except for $11.8 million of standby letters of credit issued under the agreement on behalf of VF.

NOTE K — ACCRUED LIABILITIES

In thousands	2004	2003
Compensation	$ 141,584	$ 89,856
Income taxes	39,750	21,520
Other taxes	51,829	32,432
Minimum pension liability (Note N)	55,000	55,000
Advertising	29,374	34,742
Insurance	25,831	18,212
Interest	14,989	14,789
Product warranty claims (Note M)	7,193	8,426
Other	192,665	163,962
	$ 558,215	$ 438,939

NOTE L — LONG-TERM DEBT

In thousands	2004	2003
6.75% notes, due 2005	$ 100,000	$ 100,000
8.10% notes, due 2005	300,000	300,000
8.50% notes, due 2010	200,000	200,000
6.00% notes, due 2033	292,230	292,133
Other	65,641	65,394
	957,871	957,527
Less current portion	401,232	1,144
	$ 556,639	$ 956,383

The notes contain customary covenants and events of default, including limitations on liens and sale-leaseback transactions and a cross-acceleration event of default. The cross-acceleration is triggered for all notes if more than $50.0 million of other debt is in default and has been accelerated by the lenders, except for the 6.75% notes where the threshold is $5.0 million. If VF fails in the performance of any covenant under the indenture that governs the respective notes (after giving effect to any applicable grace period), the trustee or lenders may declare the principal due and payable immediately. At the end of 2004, management believes that VF was in compliance with all covenants. VF may redeem the 8.10%, the 8.50% and the 6.00% obligations, in whole or in part, at a price equal to 100% of the principal amount, plus accrued interest to the redemption date and a premium (if any) relating to the then-prevailing treasury yield over the remaining life of the obligations.

The 6.00% notes having a principal balance of $300.0 million were sold at an original issue discount of $7.9 million. The notes are carried net of the unamortized portion of the discount. These notes have an effective annual interest cost of 6.19%, including amortization of the original issue discount, deferred gain on the interest rate hedging contract (Note U) and debt issuance costs.

Other debt includes $66.0 million payable to a former officer of Nautica, of which $33.0 million is payable in each of 2006 and 2007 (Note B). These non-interest-bearing installments were recorded at discounts of 3.25% and 3.84%, respectively, reflecting VF's incremental borrowing rates for those periods. The discounts are being amortized as Interest Expense over the lives of these obligations. The carrying value of this debt was $61.1 million at the end of 2004 and $59.0 million at the end of 2003.

The scheduled payments of long-term debt are $34.1 million in 2006, $34.2 million in 2007, $0.8 million in 2008 and $0.2 million in 2009.

NOTE M — OTHER LIABILITIES

In thousands	2004	2003
Deferred compensation	$ 186,834	$ 174,771
Minimum pension liability (Note N)	102,009	144,239
Accrued pension benefits (Note N)	56,512	49,375
Income taxes	83,033	70,201
Product warranty claims	26,976	20,426
Other	80,767	59,613
	$ 536,131	$ 518,625

VF maintains deferred compensation plans for the benefit of eligible employees. These plans allow participants to defer compensation and, in some plans, receive matching contributions by VF. Deferred compensation, including accumulated earnings on the participant-directed investment options, is distributable in cash at employee-specified dates or upon retirement, death, disability or termination of employment. See Note I for investment securities owned by VF to fund liabilities under certain of these deferred compensation plans.

Activity relating to accrued product warranty costs is summarized as follows:

In thousands	2004	2003	2002
Balance, beginning of year	$ 28,852	$ 25,782	$ 21,698
Balances of acquired businesses	347	–	–
Accrual for products sold during the year	10,788	10,597	8,548
Repair or replacement costs incurred	(6,840)	(8,552)	(5,293)
Currency translation	1,022	1,025	829
Balance, end of year	34,169	28,852	$ 25,782
Less current portion (Note K)	7,193	8,426	
Long-term accrual	$ 26,976	$ 20,426	

NOTE N — BENEFIT PLANS

VF sponsors a noncontributory qualified defined benefit pension plan covering most full-time domestic employees other than employees of companies acquired in 2004 and 2003. VF also sponsors an unfunded supplemental defined benefit pension plan that provides benefits computed under VF's principal benefit plan that exceed limitations imposed by income tax regulations. These defined benefit plans provide pension benefits based on compensation levels and years of service. The effect of these plans on income was as follows:

Dollars in thousands	2004	2003	2002
Service cost – benefits earned during the year	$ 22,470	$ 18,475	$ 18,240
Interest cost on projected benefit obligations	59,272	53,883	51,734
Expected return on plan assets	(59,728)	(48,225)	(50,433)
Curtailment charge	7,100	–	2,388
Amortization of:			
Prior service cost	3,960	3,138	4,243
Actuarial loss	24,697	28,425	1,370
Total pension expense	57,771	55,696	27,542
Amount allocable to discontinued operations	–	–	1,317
Pension expense – continuing operations	$ 57,771	$ 55,696	$ 26,225
Assumptions used to determine pension expense:			
Discount rate	6.00%	6.75%	7.50%
Expected long-term return on plan assets	8.50%	8.75%	8.75%
Rate of compensation increase	3.75%	4.00%	4.00%

The $7.1 million partial pension plan curtailment charge in 2004 related to reductions in the number of plan participants, including $2.9 million related to the disposition of VF Playwear (Note C).
The following provides a reconciliation of the changes in fair value of the pension plans' assets and projected benefit obligations, and their funded status, based on a September 30 measurement date:

Dollars in thousands	2004	2003
Fair value of plan assets, beginning of year	$ 647,723	$ 519,013
Actual return on plan assets	68,583	86,290
VF contributions	57,947	77,481
Benefits paid	(40,447)	(35,061)
Fair value of plan assets, end of year	733,806	647,723
Projected benefit obligations, beginning of year	957,437	797,173
Service cost	22,470	18,475
Interest cost	59,272	53,883
Plan amendments	25,783	501
Partial plan curtailment	(3,188)	–
Actuarial (gain) loss	(14,897)	122,466
Benefits paid	(40,447)	(35,061)
Projected benefit obligations, end of year	1,006,430	957,437
Funded status, end of year	(272,624)	(309,714)
Unrecognized net actuarial loss	267,727	321,375
Unrecognized prior service cost	32,642	17,919
Pension asset, net	$ 27,745	$ 29,580
Amounts included in Consolidated Balance Sheets:		
Noncurrent assets	$ 46,960	$ 17,919
Current liabilities	(55,000)	(55,000)
Noncurrent liabilities	(158,521)	(193,614)
Accumulated other comprehensive income (loss)	194,306	260,275
	$ 27,745	$ 29,580
Assumptions used to determine benefit obligations:		
Discount rate	6.10%	6.00%
Rate of compensation increase	3.75%	3.75%

Differences between actual results and amounts determined using actuarial assumptions are deferred and will affect future years' pension expense. Net deferred gains and losses totaling less than 10% of the lower of investment assets or projected benefit obligations at the beginning of a year are not amortized. Net deferred gains and losses that represent 10 to 20% of projected benefit obligations are amortized over ten years, while those in excess of 20% of projected benefit obligations are amortized over five years.

Management's investment strategy is to invest the plan's assets in a diversified portfolio of domestic and international equity, fixed income and real estate securities to provide long-term growth in plan assets. This strategy, the resulting allocation of plan assets and the selection of independent investment managers are reviewed periodically.

The expected long-term rate of return on plan assets was based on the weighted average of the expected returns for the major asset classes in which the plan invests. Expected returns by asset class were developed through analysis of historical market returns, current market conditions, inflation expectations and other economic factors. The assumed rate of return on plan assets of 8.50% in 2004 is lower than actual long-term historical returns. The target allocation by asset class, and the actual asset allocations at the latest measurement dates, were as follows:

	Target Allocation	September 30 2004	September 30 2003
Equity securities	65%	71%	61%
Fixed income securities	30	21	31
Real estate securities	5	8	8
Total	100%	100%	100%

VF makes contributions to the plan sufficient to meet the minimum funding requirements under applicable laws, plus additional amounts as recommended by VF's independent actuary. Although VF was not required to make a contribution to the plan during 2005 under applicable regulations, VF contributed $55.0 million to its qualified pension plan in January 2005. Estimated future benefit payments, including benefits attributable to estimated future employee service, are approximately $42 million in 2005, $43 million in 2006, $46 million in 2007, $48 million in 2008, $51 million in 2009 and $312 million for the years 2010 through 2014.

Accumulated benefit obligations earned through the respective measurement dates for these plans totaled $947.3 million in 2004 and $896.3 million in 2003. The excess of accumulated benefit obligations over the sum of the fair value of plan assets and previously accrued pension liabilities ("minimum pension liability") was $157.0 million in 2004 and $199.2 million in 2003. The offset to this minimum pension liability is recorded, after income tax effect, as a component of Accumulated Other Comprehensive Income (Loss). At the end of both 2004 and 2003, $55.0 million of the minimum pension liability was classified as a current liability because VF contributed that amount to the pension plan in early 2005 and 2004, respectively.

VF sponsors an Employee Stock Ownership Plan ("ESOP") as part of a 401(k) savings plan covering most domestic salaried employees. Cash contributions made by VF to the 401(k) plan are based on a specified percentage of employee contributions. By the end of 2002, all VF stock had been allocated to the ESOP accounts of the participating employees. VF also sponsors other savings and retirement plans for certain domestic and foreign employees. Expense for these plans totaled $7.0 million in 2004, $6.5 million in 2003 and $7.1 million in 2002.

VF participates in multiemployer retirement benefit plans for certain of its union employees. Contributions are made to these plans in amounts provided by the collective bargaining agreements and totaled $0.1 million in 2004, $0.2 million in 2003 and $0.6 million in 2002. If there were a significant reduction in union employees, VF may be required to pay a potential withdrawal liability if the respective plans were underfunded at the time of withdrawal. During 2003, VF recognized a $7.7 million expense when it was determined that a probable withdrawal liability existed due to reductions in union-based employment. An additional $1.0 million expense was recognized during 2004.

NOTE O — CAPITAL

Common Stock outstanding is net of shares held in treasury, and in substance retired. There were 1,098,172 treasury shares at the end of 2004, 1,297,953 treasury shares at the end of 2003 (after retirement of 32,000,000 shares during the year) and 32,233,996 treasury shares at the end of 2002. The excess of the cost of treasury shares acquired over the $1 per share stated value of Common Stock is charged to Retained Earnings. In addition, 256,088 shares of VF Common Stock at the end of 2004, 242,443 shares at the end of 2003 and 266,146 shares at the end of 2002 were held in trust for deferred compensation plans. These additional shares are treated for financial reporting purposes as treasury shares at a cost of $9.2 million, $8.4 million and $9.3 million at the end of 2004, 2003 and 2002, respectively.

Preferred Stock consists of 25,000,000 authorized shares at $1 par value.

Series A Preferred Stock: At the end of 2004, 2,000,000 shares are designated as Series A Preferred Stock, of which none has been issued. Each outstanding share of Common Stock has one Series A Preferred Stock purchase right attached. The rights become exercisable ten days after an outside party acquires, or makes an offer for, 15% or more of the Common Stock. Once exercisable, each right will entitle its holder to buy 1/100 share of Series A Preferred Stock for $175. If VF is involved in a merger or other business combination or an outside party acquires 15% or more of the Common Stock, each right will be modified to entitle its holder (other than the acquirer) to purchase common stock of the acquiring company or, in certain circumstances, VF Common Stock having a market value of twice the exercise price of the right. In some circumstances, rights other than those held by an acquirer may be exchanged for one share of VF Common Stock. The rights, which expire in January 2008, may be redeemed at $0.01 per right prior to their becoming exercisable.

Series B Redeemable Preferred Stock: At the end of 2004, 2,105,263 shares are designated as 6.75% Series B Redeemable Preferred Stock, which were purchased by the ESOP in 1990. (See Note N.) Changes in shares of Preferred Stock outstanding are summarized as follows:

	2004	2003	2002
Balance, beginning of year	**971,250**	1,195,199	1,477,930
Conversion to Common Stock	**(127,436)**	(223,949)	(113,527)
Redemption of Preferred Stock	**–**	–	(169,204)
Balance, end of year	**843,814**	971,250	1,195,199

Each share of Series B Redeemable Preferred Stock has a redemption value and liquidation value of $30.88 plus cumulative accrued dividends, is convertible into 1.6 shares of Common Stock and is entitled to two votes per share along with the Common Stock. Dividends are accrued and paid in cash each quarter. The trustee for the ESOP may convert the preferred shares to Common Stock at any time or may cause VF to redeem the preferred shares under certain circumstances. The Series B Redeemable Preferred Stock also has preference in liquidation over all other stock issues. By the end of 2002, all Preferred Stock had been allocated to the ESOP accounts of the participating employees.

Accumulated Other Comprehensive Income: Other comprehensive income consists of certain changes in assets and liabilities that are not included in Net Income under generally accepted accounting principles but are instead reported within a separate component of Common Stockholders' Equity. Amounts comprising Accumulated Other Comprehensive Income (Loss) in the Consolidated Balance Sheets, net of related income taxes, are summarized as follows:

In thousands	2004	2003
Foreign currency translation	**$ (1,816)**	$ (31,885)
Minimum pension liability adjustment	**(119,138)**	(160,850)
Derivative financial instruments	**(5,141)**	(4,450)
Unrealized gains on marketable securities	**13,024**	7,730
	$ (113,071)	$ (189,455)

NOTE P — STOCK-BASED COMPENSATION

VF may grant nonqualified stock options, restricted stock units and restricted stock to officers, key employees and nonemployee members of VF's Board of Directors under a stock compensation plan approved by stockholders. Stock options are granted at prices not less than fair market value on the date of grant. Options become exercisable from one to three years after the date of grant and expire ten years after the date of grant. Stock option activity is summarized as follows:

	Shares Under Options	Weighted Average Exercise Price
Balance, December 2001	9,009,981	$ 35.87
Options granted	2,453,000	40.90
Options exercised	(1,326,026)	30.29
Options canceled	(343,265)	41.16
Balance, December 2002	9,793,690	37.70
Options granted	2,448,480	34.75
Options exercised	(921,710)	29.99
Options canceled	(417,850)	41.70
Balance, December 2003	10,902,610	37.54
Options granted	**1,755,890**	**44.80**
Options exercised	**(3,015,044)**	**36.78**
Options canceled	**(13,500)**	**38.20**
Balance, December 2004	**9,629,956**	**$ 39.10**

Stock options outstanding at the end of 2004 are summarized as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Years Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 25–30	624,700	4.5	$ 26.16	624,700	$ 26.16
30–35	1,966,340	6.1	34.58	1,439,676	34.57
35–40	1,413,446	7.2	35.87	1,353,446	35.89
40–45	5,625,470	6.8	42.93	3,616,550	42.17
$ 25–45	9,629,956	6.6	$ 39.10	7,034,372	$ 37.98

Options to purchase 7,664,766 shares were exercisable at the end of 2003 at a weighted average exercise price of $38.23. At the end of 2002, there were options exercisable to purchase 6,061,240 shares at a weighted average exercise price of $36.20. At the end of 2004, there were 9,186,248 shares available for future grants of stock options and stock awards, of which no more than 2,582,575 may be grants of restricted stock or shares delivered in settlement of restricted stock units.

VF has granted performance-based restricted stock units to certain key employees as a long-term incentive under the stock compensation plan. The restricted stock units entitle the participants to receive shares of VF Common Stock at the end of a three year performance period. Each restricted stock unit has a final value ranging from zero to two shares of VF Common Stock. For the 2004 grants, the number of shares to be earned is based on achievement of preestablished performance goals set by the Compensation Committee of the Board of Directors. For grants in prior years, the number of shares to be earned was based on three year stockholder return comparisons of VF Common Stock with a peer group of apparel companies. Dividend equivalents, payable in additional shares of VF Common Stock, accrue on the restricted stock units. Shares earned at the end of each three year performance period are issued to participants in the following year, unless they elect to defer receipt of the shares. VF granted 280,007 restricted stock units having a grant date fair value per unit of $43.18 in 2004 for the performance period ending in 2006; similarly, 49,147 units were granted at $36.10 in 2003 and 44,143 units at $39.27 in 2002. A total of 23,727, 25,064 and 57,188 shares of VF Common Stock were earned for the three year performance periods ended in 2004, 2003 and 2002, respectively. At the end of 2004, there were 49,147 restricted stock units outstanding for the performance period ending in 2005 and 280,007 for the performance period ending in 2006. A total of 101,943 shares of Common Stock are issuable in future years to participants who have elected to defer receipt of their shares earned.

At the end of 2004, VF had 62,611 shares of restricted stock outstanding that vest in 2005, which had been granted to key employees in prior years. This total included dividends payable in additional restricted shares of 1,328, 1,579 and 1,425 shares accrued in 2004, 2003 and 2002, respectively, on prior years' grants of restricted stock.

Compensation expense recognized in the Consolidated Statements of Income for restricted stock units and restricted stock totaled $11.0 million in 2004, $1.6 million in 2003 and $1.0 million in 2002. Since all stock options are granted at market value, compensation expense is not required. Note A presents pro forma net income and earnings per share that would have resulted if compensation had been recorded based on the fair value method for all stock-based compensation. Fair value for stock options, as presented in Note A, was estimated using the Black-Scholes option-pricing model. The resulting weighted average fair value of stock options granted during 2004 was $11.64 per share, during 2003 was $8.33 per share and during 2002 was $10.51 per share, based on the following assumptions:

	2004	2003	2002
Risk-free interest rate	**2.6%**	2.6%	4.0%
Expected dividend yield	**2.4%**	2.9%	2.7%
Expected volatility	**35%**	36%	36%
Expected life (years)	**4**	4	4

NOTE Q – INCOME TAXES

The provision for Income Taxes was computed based on the following amounts of Income from Continuing Operations before Income Taxes and Cumulative Effect of a Change in Accounting Policy:

In thousands	2004	2003	2002
Domestic	$ 545,516	$ 459,507	$ 439,744
Foreign	166,604	138,999	121,984
	$ 712,120	$ 598,506	$ 561,728

The provision for Income Taxes for continuing operations consists of:

In thousands	2004	2003	2002
Current:			
Federal	$ 170,649	$ 132,160	$ 95,738
Foreign	38,703	29,912	28,935
State	11,895	7,540	1,778
	221,247	169,612	126,451
Deferred, primarily federal	16,172	30,961	70,849
	$ 237,419	$ 200,573	$ 197,300

The reasons for the difference between income taxes computed by applying the statutory federal income tax rate for continuing operations and income tax expense in the financial statements are as follows:

In thousands	2004	2003	2002
Tax at federal statutory rate	$ 249,242	$ 209,477	$ 196,605
State income taxes, net of federal tax benefit	5,525	7,459	9,918
Foreign operating losses with no current benefit	7,276	2,476	7,531
Foreign rate differences	(18,311)	(9,674)	(16,989)
Change in valuation allowance	(6,297)	(3,068)	(6,115)
Other, net	(16)	(6,097)	6,350
	$ 237,419	$ 200,573	$ 197,300

Deferred income tax assets and liabilities consist of the following:

In thousands	2004	2003
Deferred income tax assets:		
Employee benefits	$ 50,126	$ 41,993
Inventories	19,036	22,280
Other accrued expenses	162,584	159,663
Minimum pension liability	73,985	99,425
Operating loss carryforwards	110,446	91,720
Foreign currency translation	–	26,214
	416,177	441,295
Valuation allowance	(67,475)	(67,810)
Deferred income tax assets	348,702	373,485
Deferred income tax liabilities:		
Depreciation	34,346	39,636
Intangible assets	158,841	87,538
Other	64,262	36,047
Deferred income tax liabilities	257,449	163,221
Net deferred income tax assets	$ 91,253	$ 210,264
Amounts included in Consolidated Balance Sheets:		
Current assets	$ 99,338	$ 92,828
Current liabilities	(4,468)	–
Noncurrent assets	12,476	117,436
Noncurrent liabilities	(16,093)	–
	$ 91,253	$ 210,264

As of the end of 2004, VF has not provided deferred U.S. income taxes on $318.0 million of undistributed earnings of international subsidiaries where such earnings are considered to be permanently invested. Such undistributed earnings would become taxable in the United States if it becomes advantageous for business, tax or foreign exchange reasons to remit foreign cash balances to the United States. VF has undertaken initiatives resulting in a reduced effective tax rate on earnings of one of VF's foreign subsidiaries. The income tax benefit from this tax status was $16.5 million ($0.15 per diluted share) in 2004, $10.8 million ($0.10 per share) in 2003 and $13.3 million ($0.12 per share) in 2002. The tax status providing this benefit is scheduled to expire at the end of 2009.

VF has $190.2 million of foreign operating loss carryforwards expiring $6.9 million in 2005, $17.5 million in 2006, $9.5 million in 2007, $1.0 million in 2008 and $4.2 million in 2009, with the remainder having an unlimited carryforward life. A valuation allowance has been provided where it is more likely than not, based on an evaluation of currently available information, that the deferred tax assets relating to those loss carryforwards will not be realized. Interest income in 2003 included $5.7 million related to settlement of federal income tax issues.

The American Jobs Creation Act of 2004 ("the Act") was signed into law in late 2004. The Act contains a temporary incentive for repatriation of foreign earnings during 2005 at a 5.25% effective income

tax rate. At the end of 2004, VF had approximately $375 million of accumulated foreign earnings subject to repatriation. If VF were to decide to remit some or all of these earnings during 2005, it would result in an additional one-time income tax expense ranging up to $16 million. Management is evaluating its unremitted foreign earnings and the provisions of the Act.

NOTE R — BUSINESS SEGMENT INFORMATION

From an organizational standpoint, VF's businesses are segregated by product categories and brands within those product categories. For management and internal reporting purposes, these business groupings are designated as "coalitions." These coalitions, as described below, represent VF's reportable business segments:

- Jeanswear: Jeanswear and related products
- Outdoor Apparel and Equipment: Outerwear and adventure apparel, footwear, daypacks and bags, and technical equipment
- Intimate Apparel: Women's intimate apparel
- Imagewear: Occupational apparel, licensed sports apparel and distributor knitwear
- Sportswear: Fashion sportswear
- Other: Primarily VF Playwear, which was sold in 2004 (Note C)

Business segment information presented for 2003 and 2002 has been restated to conform with this organizational structure. In addition, segment profit in 2003 and 2002 has been restated to include restructuring charges in the appropriate coalition. Previously, these expenses had not been included in the operating results of the business units.

The Vans, Kipling and Napapijri businesses acquired in 2004 are part of the Outdoor Apparel and Equipment coalition. The operations of Nautica, John Varvatos and Earl Jean, acquired in August 2003, comprise the Sportswear coalition, except that the golf apparel product line is part of the Imagewear coalition.

Management at each of the coalitions has direct control over and responsibility for their sales, operating income and assets, hereinafter termed Coalition Sales, Coalition Profit and Coalition Assets, respectively. VF management evaluates operating performance and makes decisions based on Coalition Sales and Coalition Profit. Accounting policies used for internal management reporting at the individual coalitions are consistent with those stated in Note A, except as stated below and except that inventories are valued on a first-in, first-out basis. Common costs such as information processing, retirement benefits and insurance are allocated to the coalitions based on appropriate metrics such as usage or employment.

Corporate costs other than costs directly related to the coalitions and net interest expense are not controlled by coalition management and are therefore excluded from the Coalition Profit performance measure used for internal management reporting. These items are separately presented in the reconciliation of Coalition Profit to Consolidated Income from Continuing Operations before Income Taxes.

Corporate and Other Expenses (presented separately in the following table) consists of corporate headquarters expenses that are not allocated to the coalitions (including compensation and benefits of corporate management and staff, legal and professional fees, and administrative and general) and other expenses related to but not allocated to the coalitions for internal management reporting (including development costs for management information systems, costs of maintaining and enforcing VF's trademarks, adjustments for the last-in, first-out method of inventory valuation and consolidating adjustments).

Coalition Assets, for internal management purposes, are those used directly in the operations of each business unit, such as accounts receivable, inventories and property. Corporate assets include investments held in trusts for deferred compensation and retirement benefit plans and information systems assets.

Financial information for VF's reportable segments is as follows:

In thousands	2004	2003	2002
Coalition sales:			
Jeanswear	**$ 2,661,946**	$ 2,666,815	$ 2,788,486
Outdoor Apparel and Equipment	**1,003,851**	580,663	508,020
Intimate Apparel	**903,552**	830,225	839,786
Imagewear	**769,552**	727,223	751,893
Sportswear	**604,879**	248,967	–
Other	**110,756**	153,566	195,338
Consolidated net sales	**$ 6,054,536**	$ 5,207,459	$ 5,083,523
Coalition profit:			
Jeanswear	**$ 452,160**	$ 415,572	$ 472,816
Outdoor Apparel and Equipment	**154,256**	95,720	71,447
Intimate Apparel	**118,733**	86,671	97,675
Imagewear	**116,123**	101,475	85,934
Sportswear	**59,745**	35,215	–
Other	**(10,727)**	(4,770)	1,288
Total coalition profit	**890,290**	729,883	729,160
Corporate and other expenses	**(109,234)**	(81,465)	(103,504)
Interest, net	**(68,936)**	(49,912)	(63,928)
Consolidated income from continuing operations before income taxes	**$ 712,120**	$ 598,506	$ 561,728
Coalition assets:			
Jeanswear	**$ 1,075,739**	$ 1,002,910	$ 1,052,447
Outdoor Apparel and Equipment	**414,343**	217,473	147,990
Intimate Apparel	**345,292**	332,754	331,528
Imagewear	**288,537**	304,927	310,882
Sportswear	**135,394**	205,450	–
Other	**76,979**	111,705	124,391
Total coalition assets	**2,336,284**	2,175,219	1,967,238
Cash and equivalents	**485,507**	514,785	496,367
Intangible assets and goodwill	**1,671,114**	1,019,606	473,355
Deferred income taxes	**111,814**	208,391	258,589
Corporate assets	**399,559**	327,551	307,602
Consolidated assets	**$ 5,004,278**	$ 4,245,552	$ 3,503,151

(table continued on next page)

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In thousands	2004	2003	2002
Capital expenditures:			
Jeanswear	$ 37,587	$ 41,495	$ 33,819
Outdoor Apparel and Equipment	8,237	6,889	5,318
Intimate Apparel	7,269	7,660	7,189
Imagewear	3,441	1,578	1,951
Sportswear	8,871	2,845	–
Other	6,567	3,512	3,903
Corporate	9,438	22,640	12,323
Total	$ 81,410	$ 86,619	$ 64,503
Depreciation expense:			
Jeanswear	$ 52,317	$ 53,830	$ 54,068
Outdoor Apparel and Equipment	8,617	3,860	9,545
Intimate Apparel	10,207	9,860	11,358
Imagewear	8,869	13,724	12,275
Sportswear	8,369	2,976	–
Other	10,108	9,538	9,554
Corporate	12,381	10,855	10,598
Total	$ 110,868	$ 104,643	$ 107,398

Information by geographic area is presented below, with sales based on the location of the customer:

In thousands	2004	2003	2002
Net sales:			
United States	$ 4,678,593	$ 4,090,749	$ 4,078,385
Foreign, primarily Europe	1,375,943	1,116,710	1,005,138
Total	$ 6,054,536	$ 5,207,459	$ 5,083,523
Property, plant and equipment:			
United States	$ 354,274	$ 381,619	$ 346,637
Mexico	94,489	109,681	125,525
Other foreign, primarily Europe	123,491	100,380	94,384
Total	$ 572,254	$ 591,680	$ 566,546

Worldwide sales by product category are as follows:

In thousands	2004	2003	2002
Jeans and related apparel	$ 2,661,946	$ 2,666,815	$ 2,788,486
Outdoor products	1,003,851	580,663	508,020
Intimate apparel	903,552	830,225	839,786
Sportswear	604,879	248,967	–
Occupational apparel	471,176	450,511	492,798
Other apparel	409,132	430,278	454,433
Total	$ 6,054,536	$ 5,207,459	$ 5,083,523

Sales to Wal-Mart Stores, Inc., substantially all in the Jeanswear and Intimate Apparel coalitions, comprised 15.0% of consolidated sales in 2004, 16.5% in 2003 and 16.2% in 2002. Trade receivables from this customer totaled $93.2 million at the end of 2004 and $75.4 million at the end of 2003.

NOTE S — COMMITMENTS

VF enters into noncancelable operating leases for retail stores and other facilities and for equipment. Leases for real estate typically have initial terms ranging from 5 to 15 years, some with renewal options. Leases for equipment typically have initial terms ranging from 2 to 5 years. Most leases have fixed rentals; expense for leases having lease incentives or escalating rentals are recorded on a straight-line basis over the minimum lease terms. Certain of the leases contain requirements for additional rental payments based on sales volume or for payments of real estate taxes and other occupancy costs. Rent expense included in the Consolidated Statements of Income was as follows:

In thousands	2004	2003	2002
Minimum rent expense	$ 95,103	$ 74,367	$ 62,408
Contingent rent	3,669	1,953	381
Rent expense	$ 98,772	$ 76,320	$ 62,789

Future minimum lease payments are $97.7 million, $83.7 million, $65.8 million, $52.8 million and $38.6 million for the years 2005 through 2009, respectively, and $76.6 million thereafter.

VF enters into licensing agreements that provide VF rights to market products under trademarks owned by other parties. Royalties under these agreements are recognized in Cost of Goods Sold in the Consolidated Statements of Income. Certain of these agreements contain provisions for the payment of minimum royalties. Future minimum royalty payments, including any required minimum advertising payments, are $14.3 million, $16.6 million, $16.2 million, $13.8 million and $4.7 million for the years 2005 through 2009, respectively.

VF in the ordinary course of business enters into purchase commitments for raw materials, sewing labor and finished product inventories. These agreements, typically ranging from 2 to 6 months in duration, require total payments of $667.2 million in 2005. In addition, VF has committed to purchase $15.0 million of finished product in each of the next 10 years in connection with the sale of a business (Note C).

VF has also entered into commitments for capital spending, advertising and service and maintenance agreements for its management information systems. Future payments under these agreements are $90.0 million, $8.0 million, $3.2 million, $1.4 million and $0.1 million for the years 2005 through 2009, respectively.

The trustee of the Employee Stock Ownership Plan may require VF to redeem Series B Redeemable Preferred Stock held in participant accounts and to pay each participant the value of their account, upon retirement or withdrawal from the ESOP. The amounts of these redemptions vary based on the conversion value of the Preferred Stock. Since 2002, no redemption payments have been required as the ESOP trustee has converted shares of Series B Redeemable Preferred Stock for withdrawing participants into shares of Common Stock.

VF has entered into $80.5 million of surety bonds and standby letters of credit representing contingent guarantees of performance under self-insurance and other programs. These commitments would only be drawn upon if VF were to fail to meet its claims obligations.

NOTE T — EARNINGS PER SHARE

In thousands, except per share amounts	2004	2003	2002
Basic earnings per share:			
Income from continuing operations	$ 474,702	$ 397,933	$ 364,428
Less Preferred Stock dividends and redemption premium	1,832	2,238	8,523
Income available for Common Stock	$ 472,870	$ 395,695	$ 355,905
Weighted average Common Stock outstanding	109,872	107,713	109,167
Basic earnings per share from continuing operations	$ 4.30	$ 3.67	$ 3.26
Diluted earnings per share:			
Income from continuing operations	$ 474,702	$ 397,933	$ 364,428
Increased ESOP expense if Preferred Stock were converted to Common Stock	–	–	652
Income available for Common Stock and dilutive securities	$ 474,702	$ 397,933	$ 363,776
Weighted average Common Stock outstanding	109,872	107,713	109,167
Effect of dilutive securities:			
Preferred Stock	1,406	1,674	2,103
Stock options and other	1,452	936	1,066
Weighted average Common Stock and dilutive securities outstanding	112,730	110,323	112,336
Diluted earnings per share from continuing operations	$ 4.21	$ 3.61	$ 3.24

Outstanding options to purchase 5.0 million shares of Common Stock were excluded from the computation of diluted earnings per share in 2003 and 5.6 million shares in 2002 because the option exercise prices were greater than the average market price of the Common Stock. Earnings per share for Discontinued Operations, for the Cumulative Effect of a Change in Accounting Policy and for Net Income (Loss) in 2002 are computed using the same weighted average shares described above.

NOTE U — FINANCIAL INSTRUMENTS

The carrying amount and fair value of financial instrument assets (liabilities) are as follows:

In thousands	2004 Carrying Amount	2004 Fair Value	2003 Carrying Amount	2003 Fair Value
Long-term debt	$ (957,871)	$ (1,027,331)	$ (957,527)	$ (1,038,544)
Series B Redeemable Preferred Stock	(26,053)	(74,769)	(29,987)	(66,169)

The fair value of VF's long-term debt was estimated based on quoted market prices or values of comparable borrowings. The fair value of the Series B Redeemable Preferred Stock was based on a valuation by an independent financial consulting firm. The carrying amounts of cash and equivalents, accounts receivable, marketable securities and life insurance contracts, short-term borrowings and foreign currency exchange contracts approximates their fair value.

VF monitors net foreign currency exposures and may in the ordinary course of business enter into foreign currency forward exchange contracts with major financial institutions. These contracts hedge against the effects of exchange rate fluctuations on anticipated cash flows relating to a portion of VF's significant foreign currency cash flows for inventory purchases and production costs, product sales and intercompany royalty payments anticipated for the following 12 months. Other contracts hedge against the effects of exchange rate fluctuations on specific foreign currency transactions, primarily intercompany financing arrangements. Use of hedging contracts allows VF to reduce its overall exposure to exchange rate movements since gains and losses on these contracts will offset losses and gains on the transactions being hedged.

The following summarizes, by major currency, the net U.S. dollar equivalent amount of VF's foreign currency forward exchange contracts:

In thousands	2004 Notional Value – Bought (Sold)	2004 Fair Value – Asset (Liability)	2003 Notional Value – Bought (Sold)	2003 Fair Value – Asset (Liability)
European euro	$ (210,914)	$ (9,877)	$ (73,439)	$ (8,189)
Mexican peso	76,925	2,788	69,762	208
Canadian dollar	(39,463)	(2,842)	(25,980)	(1,302)
Other	8,465	–	(11,928)	–
		$ (9,931)		$ (9,283)

VF recognized net pretax losses of $8.8 million during 2004, $15.8 million during 2003 and $0.3 million during 2002, primarily in Cost of Goods Sold in the Consolidated Statements of Income, for foreign currency hedging contracts that had matured. At the end of 2004, net pretax losses of $11.7 million were deferred in Accumulated Other Comprehensive Income. These net deferred losses are expected to be reclassified into earnings during 2005 at the time the underlying hedged transactions are realized. Hedge ineffectiveness was not significant in any period.

VF may also enter into derivative financial instrument contracts to hedge interest rate risks. VF entered into a contract to hedge the interest rate risk for a notional amount of $150.0 million shortly before the issuance of $300.0 million of long-term debt in 2003 (Note L). This contract was settled concurrent with the issuance of the debt, with the gain of $3.5 million deferred in Accumulated Other Comprehensive Income.

In addition, as a result of the interest rate hedging contract mentioned above, VF recognized a pretax gain of $0.1 million during 2004 and during 2003 as a reduction of Interest Expense. At the end of 2004, a pretax gain of $3.3 million was deferred in Accumulated Other Comprehensive Income, which will be reclassified into earnings over the 30 year term of the notes issued in 2003.

NOTE V — SUPPLEMENTAL CASH FLOW INFORMATION

In thousands	2004	2003	2002
Income taxes paid	$ 186,223	$ 128,770	$ 132,645
Interest paid	73,171	56,148	72,182
Noncash transactions:			
Notes received for sale of assets	13,664	–	–
Notes issued in acquisition	–	58,300	–
Debt assumed in acquisitions	28,842	18,758	–
Conversion of Redeemable Preferred Stock to Common Stock	3,934	6,914	3,514
Issuance of Common Stock for compensation plans	647	1,004	973

NOTE W — SUBSEQUENT EVENTS

A subsidiary of VF acquired substantially all of the net assets of Holoubek, Inc., a business having rights to manufacture and market apparel products under license from Harley-Davidson Motor Company, Inc. The purchase price was $26.4 million, with an additional maximum of $2.5 million in contingent consideration. VF also sold a 20% interest in its *John Varvatos®* luxury sportswear business to Mr. Varvatos reducing VF's ownership to 80%.

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

In thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2004					
Net sales	$ 1,432,669	$ 1,269,537	$ 1,792,569	$ 1,559,761	$ 6,054,536
Gross profit	554,276	499,829	719,828	636,348	2,410,281
Net income	103,874	90,088	155,437	125,303	474,702
Earnings per share:					
Basic	$ 0.95	$ 0.82	$ 1.41	$ 1.13	$ 4.30
Diluted	0.93	0.80	1.38	1.10	4.21
Dividends per common share	$ 0.26	$ 0.26	$ 0.26	$ 0.27	$ 1.05
2003					
Net sales	$ 1,250,055	$ 1,134,742	$ 1,435,403	$ 1,387,259	$ 5,207,459
Gross profit	468,763	420,731	537,078	518,512	1,945,084
Net income	92,066	74,945	125,289	105,633	397,933
Earnings per share:					
Basic	$ 0.84	$ 0.69	$ 1.16	$ 0.97	$ 3.67
Diluted	0.83	0.68	1.14	0.96	3.61
Dividends per common share	$ 0.25	$ 0.25	$ 0.25	$ 0.26	$ 1.01
2002					
Net sales	$ 1,212,262	$ 1,160,256	$ 1,400,389	$ 1,310,616	$ 5,083,523
Gross profit	427,894	435,180	529,272	437,169	1,829,515
Income from continuing operations	77,047	88,480	128,564	70,337	364,428
Net income (loss)	(448,258)	88,866	128,249	76,600	(154,543)
Earnings per share from continuing operations:					
Basic	$ 0.67	$ 0.79	$ 1.16	$ 0.64	$ 3.26
Diluted	0.67	0.79	1.15	0.63	3.24
Dividends per common share	$ 0.24	$ 0.24	$ 0.24	$ 0.25	$ 0.97

VF CORPORATION FINANCIAL SUMMARY

Dollars in thousands, except per share amounts	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Summary of Operations											
Net sales	**$ 6,054,536**	$ 5,207,459	$ 5,083,523	$ 5,220,417	$ 5,403,123	$ 5,193,747	$ 5,090,109	$ 4,728,784	$ 4,697,624	$ 4,613,512	$ 4,517,836
Operating income	**777,788**	644,889	621,924	454,427	505,558	638,422	670,090	555,147	511,239	316,152	516,558
Income from continuing operations	**474,702**	397,933	364,428	217,278	265,951	359,539	377,078	321,279	272,370	140,082	267,118
Discontinued operations	**–**	–	8,283	(79,448)	1,165	6,703	11,228	29,663	27,154	17,209	7,418
Cumulative effect of change in accounting policy	**–**	–	(527,254)	–	(6,782)	–	–	–	–	–	–
Net income (loss)	**474,702**	397,933	(154,543)	137,830	260,334	366,242	388,306	350,942	299,524	157,291	274,536
Earnings (loss) per common share – basic [1]											
Income from continuing operations	**$ 4.30**	$ 3.67	$ 3.26	$ 1.90	$ 2.29	$ 2.98	$ 3.07	$ 2.52	$ 2.11	$ 1.07	$ 2.04
Discontinued operations	**–**	–	0.08	(0.71)	0.01	0.06	0.10	0.24	0.21	0.13	0.06
Cumulative effect of change in accounting policy	**–**	–	(4.83)	–	(0.06)	–	–	–	–	–	–
Net income (loss)	**4.30**	3.67	(1.49)	1.19	2.25	3.04	3.17	2.76	2.32	1.20	2.10
Earnings (loss) per common share – diluted [1]											
Income from continuing operations	**$ 4.21**	$ 3.61	$ 3.24	$ 1.89	$ 2.26	$ 2.93	$ 3.01	$ 2.47	$ 2.07	$ 1.06	$ 1.99
Discontinued operations	**–**	–	0.07	(0.69)	0.01	0.06	0.09	0.23	0.21	0.13	0.06
Cumulative effect of change in accounting policy	**–**	–	(4.69)	–	(0.06)	–	–	–	–	–	–
Net income (loss)	**4.21**	3.61	(1.38)	1.19	2.21	2.99	3.10	2.70	2.28	1.19	2.05
Dividends per share	**1.05**	1.01	.97	.93	.89	.85	.81	.77	.73	.69	.65
Average number of common shares outstanding	**109,872**	107,713	109,167	111,294	114,075	118,538	120,744	125,504	127,292	127,486	129,240
Financial Position											
Working capital	**$ 1,006,354**	$ 1,419,281	$ 1,199,696	$ 1,217,587	$ 1,103,896	$ 763,943	$ 815,146	$ 835,558	$ 940,059	$ 799,317	$ 638,834
Current ratio	**1.7**	2.8	2.4	2.5	2.1	1.7	1.8	2.1	2.2	1.9	1.7
Total assets	**$ 5,004,278**	$ 4,245,552	$ 3,503,151	$ 4,103,016	$ 4,358,156	$ 4,026,514	$ 3,836,666	$ 3,322,782	$ 3,449,535	$ 3,447,071	$ 3,335,608
Long-term debt	**556,639**	956,383	602,287	904,035	905,036	517,834	521,657	516,226	519,058	614,217	516,700
Redeemable preferred stock	**26,053**	29,987	36,902	45,631	48,483	51,544	54,344	56,341	58,092	60,667	62,195
Common stockholders' equity	**2,513,241**	1,951,307	1,657,848	2,112,796	2,191,813	2,163,818	2,066,308	1,866,769	1,973,739	1,771,506	1,734,009
Debt to capital ratio [2]	**28.5%**	33.7%	28.6%	31.7%	34.7%	30.1%	27.1%	22.5%	21.4%	32.3%	32.7%
Other Statistics [4]											
Operating margin	**12.8%**	12.4%	12.2%	8.7%	9.4%	12.3%	13.2%	11.7%	10.9%	6.9%	11.4%
Return on capital [2] [3]	**15.8%**	16.6%	16.9%	8.0%	9.6%	12.9%	15.1%	13.6%	11.9%	6.5%	11.7%
Return on average common stockholders' equity	**21.2%**	22.3%	22.1%	9.8%	12.1%	17.3%	19.7%	18.2%	16.2%	8.8%	16.8%
Return on average total assets	**10.1%**	10.5%	10.4%	5.0%	6.1%	8.9%	10.2%	10.1%	8.6%	4.4%	7.9%
Cash provided by operations	**$ 730,256**	$ 543,704	$ 645,584	$ 600,556	$ 434,381	$ 383,759	$ 382,547	$ 395,056	$ 648,348	$ 289,690	$ 436,602
Purchase of Common Stock	**–**	61,400	124,623	146,592	105,723	149,075	147,398	391,651	61,483	86,251	27,878
Dividends	**117,731**	111,258	108,773	106,864	104,920	104,302	101,660	100,141	97,036	92,038	88,223
Market Data [4]											
Market price range [1]	**$ 55.61 – 42.06**	$ 44.08 – 32.62	$ 45.64 – 31.50	$ 42.70 – 28.15	$ 36.90 – 20.94	$ 55.00 – 27.44	$ 54.69 – 33.44	$ 48.25 – 32.25	$ 34.94 – 23.81	$ 28.56 – 23.38	$ 26.88 – 22.13
Book value per common share [1]	**22.56**	18.04	15.28	19.21	19.52	18.62	17.30	15.40	15.44	13.96	13.51
Price earnings ratio – high-low [5]	**13.2 – 10.0**	12.2 – 9.0	14.1 – 9.7	22.6 – 14.9	16.3 – 9.3	18.8 – 9.4	18.2 – 11.1	19.5 – 13.1	16.9 – 11.5	26.9 – 22.1	13.5 – 11.1
Rate of payout [6]	**24.9%**	28.0%	29.9%	49.2%	39.4%	29.0%	26.9%	31.2%	35.3%	65.1%	32.7%

(1) Per share computations and market price ranges have been adjusted to reflect a two-for-one stock split in November 1997.
(2) Capital is defined as average common stockholders' equity plus short-term and long-term debt.
(3) Return on capital is based on operating income plus miscellaneous income (expense), net of income taxes.
(4) Operating statistics and market data are based on continuing operations.
(5) Market price divided by income from continuing operations per diluted share.
(6) Dividends per share divided by earnings from continuing operations per diluted share.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

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First Union Corporation
Charlotte, North Carolina
(Banking)
Director since 1992, age 63

Juan Ernesto de Bedout [1,3]
Group President Latin American Operations
Kimberly-Clark Corporation
Roswell, Georgia
(Consumer products)
Director since 2000, age 60

Ursula O. Fairbairn [2,5]
Executive Vice President – Human Resources & Quality
American Express Company
New York, New York
(Financial services company)
Director since 1994, age 62

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Consultant
New York, New York
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Director since 1987, age 67

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Consultant to Investcorp International, Inc.
New York, New York
(Private equity firm)
Director since 1997, age 62

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Former Chairman, President and Chief Executive Officer
Terabeam Corporation
Redmond, Washington
(Telecommunications)
Director since 1999, age 51

Robert J. Hurst [2,3]
Senior Advisor
Crestview Partners, LLC
New York, New York
(Private equity firm)
Director since 1994, age 59

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Circuit City Stores, Inc.
Richmond, Virginia
(National retailer)
Director since 2000, age 55

Mackey J. McDonald [2,3*]
Chairman, President and Chief Executive Officer
Director since 1993, age 58

Clarence Otis, Jr. [1,4]
Chief Executive Officer
Darden Restaurants, Inc.
Orlando, Florida
(Casual dining restaurants)
Director since 2004, age 48

M. Rust Sharp [2,5]
Of Counsel
Heckscher, Teillon, Terrill & Sager
West Conshohocken, Pennsylvania
(Attorneys)
Director since 1984, age 64

Raymond G. Viault [1,4]
Former Vice Chairman
General Mills, Inc.
Minneapolis, Minnesota
(Consumer food products)
Director since 2002, age 60

Committees of the Board
1 Audit Committee
2 Executive Committee
3 Finance Committee
4 Nominating and Governance Committee
5 Compensation Committee
* Ex officio member

CORPORATE OFFICERS

Mackey J. McDonald
Chairman, President and Chief Executive Officer
Joined VF in 1983, age 58

George N. Derhofer
Vice President and Chairman – Intimate Apparel and Imagewear Coalitions
Joined VF in 1989, age 51

Terry L. Lay
Vice President and Chairman – Jeanswear Coalition
Joined VF in 1974, age 57

John P. Schamberger
Vice President and Chairman – Cross Coalition Management
Joined VF in 1972, age 56

Eric C. Wiseman
Vice President and Chairman – Outdoor and Sportswear Coalitions
Joined VF in 1995, age 49

Robert K. Shearer
Vice President – Finance and Global Processes and Chief Financial Officer
Joined VF in 1986, age 53

Bradley W. Batten
Vice President – Controller
Joined VF in 2004, age 49

Candace S. Cummings
Vice President – Administration, General Counsel and Secretary
Joined VF in 1995, age 57

Stephen F. Dull
Vice President – Strategy
Joined VF in 2005, age 46

Michael T. Gannaway
Vice President – Customer Management
Joined VF in 2004, age 53

Frank C. Pickard III
Vice President – Treasurer
Joined VF in 1976, age 60

Boyd A. Rogers
Vice President – Global Supply Chain and Technology
Joined VF in 1971, age 56

Franklin L. Terkelsen
Vice President – Mergers and Acquisitions
Joined VF in 2004, age 40

Susan Larson Williams
Vice President – Human Resources
Joined VF in 1983, age 47

Richard Lipinski
Vice President – Corporate Taxes
Joined VF in 1986, age 59

F. Scott Moree
Vice President – Internal Audit
Joined VF in 1994, age 48

David L. Reklau
Financial Controller
Joined VF in 1981, age 58

Linda J. Matthews
Assistant Treasurer
Joined VF in 1981, age 48

INVESTOR INFORMATION

Common Stock
Listed on the New York Stock Exchange and Pacific Exchange – trading symbol VFC.

Shareholders of Record
As of February 11, 2005, there were 5,539 shareholders of record.

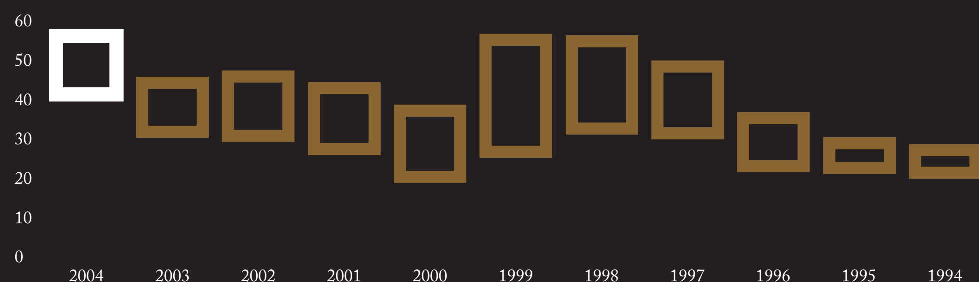
Dividend Policy
Quarterly dividends on VF Corporation Common Stock, when declared, are paid on or about the 20th day of March, June, September and December.

Dividend Reinvestment Plan
The Plan is offered to shareholders by EquiServe Trust Company, N.A. The Plan provides for automatic dividend reinvestment and voluntary cash contributions for the purchase of additional shares of VF Corporation Common Stock. Questions concerning general Plan information should be directed to the Office of the Vice President – Administration, General Counsel and Secretary of VF Corporation.

Dividend Direct Deposit
Shareholders may have their dividends deposited into their savings or checking account at any bank that is a member of the Automated Clearing House (ACH) system. A brochure describing this service may be obtained by contacting EquiServe.

Quarterly Common Stock Price Information
The high and low sales prices on a calendar quarter basis for the periods indicated were as follows:

	2004		2003		2002	
	High	Low	High	Low	High	Low
First quarter	$ 47.04	$ 42.06	$ 39.35	$ 32.62	$ 44.98	$ 39.00
Second quarter	50.45	43.50	40.17	33.51	45.64	38.20
Third quarter	51.02	45.87	41.59	33.43	43.07	33.88
Fourth quarter	55.61	47.15	44.08	38.81	39.35	31.50



Corporate Office
VF World Headquarters
105 Corporate Center Boulevard
Greensboro, North Carolina 27408
Telephone: (336) 424-6000
Facsimile: (336) 424-7696
Mail Address: P.O. Box 21488
Greensboro, North Carolina 27420

Annual Meeting
The Annual Meeting of Shareholders will be held on Tuesday, April 26, 2005, at 10:30 AM at the O. Henry Hotel, Caldwell Room, 624 Green Valley Road, Greensboro, North Carolina 27408

Investor Relations
Cindy Knoebel, CFA
Vice President, Financial and Corporate Communications
VF Services, Inc.
105 Corporate Center Boulevard
Greensboro, North Carolina 27408

Transfer Agent and Registrar
EquiServe Trust Company, N.A.
9th Floor, Suite 4694
525 Washington Boulevard
Jersey City, New Jersey 07310
Shareholder Relations Department: (800) 446-2617

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
101 CentrePort Drive
Greensboro, North Carolina 27409

Certifications
VF has filed the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of the Company's public disclosure as exhibits to the Company's annual report on Form 10-K for the fiscal year ended January 1, 2005. After VF's 2005 Annual Meeting of Stockholders, VF intends to file with the New York Stock Exchange the certification regarding VF's compliance with the NYSE's corporate governance listing standards as required by NYSE Rule 303A.12. Last year, the Company filed this certification with the NYSE on May 8, 2004.

Other Information
VF's filings with the SEC, including its annual report on Form 10-K, quarterly reports on Form 10-Q, press releases and reports on Form 8-K and other information, are available and can be accessed free of charge through the Company's website at www.vfc.com. VF's Corporate Governance Principles, Code of Business Conduct, and charters for the Audit Committee, Compensation Committee, Nominating and Governance Committee and Finance Committee are also available on our website. These documents will also be provided to any shareholder free of charge upon request directed to the Secretary of VF at P.O. Box 21488, Greensboro, North Carolina 27420.

The following trademarks owned by VF Corporation or its affiliates appear in this report.

Registered trademarks: LEE, WRANGLER, WRANGLER HERO, RIDERS, RUSTLER, BRITTANIA, TIMBER CREEK BY WRANGLER, HERO BY WRANGLER, WRANGLER RUGGED WEAR, CHIC, GITANO, VANITY FAIR, LILY OF FRANCE, VASSARETTE, CURVATION, BESTFORM, DAZZLER, X-BRA, MAVERICK, OLD AXE, H.I.S, THE NORTH FACE, JANSPORT, EASTPAK, RIVETED BY LEE, LEE NATIONAL DENIM DAY, VALUE IN STYLE, 20X, LOU, BOLERO, BELCOR, INTIMA CHERRY, GEMMA, VARIANCE, MAJESTIC, LEE SPORT, RED KAP, BULWARK, CSA, CHEF DESIGNS, HORACE SMALL, NAUTICA, EARL JEAN, E. MAGRATH, BYRON NELSON, VANS, KIPLING, NAPAPIJRI.

Trademarks: LEE DUNGAREES, BUDDY LEE REGISTERED, EASIFIT, PENN STATE TEXTILE, ONE TRUE FIT, AURA FROM THE WOMEN AT WRANGLER, WRANGLER JEANS CO., WRANGLER HOME, PRO GEAR BY WRANGLER, RIGGS WORKWEAR BY WRANGLER, COPPERCOLLECTION, BODY SLEEKS, SHOCKSHIELD, BODY BREATHE, SPELLBOUND, MODUS, THE FORCE, ULTIMATE 5.

The following trademarks owned by other companies also appear in this report: NIKE SWIM, TOMMY HILFIGER, UFO, CHASE AUTHENTICS, NFL RED, NFL WHITE, NCAA BLUE DISC, HARLEY-DAVIDSON.

Design: AND PARTNERS, NY

Photography: VINCENT RICARDEL (OPERATING COMMITTEE) DANIELA STALLINGER (PORTRAITS)

Writing: WALTER THOMAS, AIR FORCE ONE

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(336) 424-6000
www.vfc.com

We fit your life.