WestPoint Stevens Inc.
2004
Annual Review
for Fiscal Year Ended
December 31, 2004

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Item 1. Business

General

On June 1, 2003 (the "Petition Date"), WestPoint Stevens Inc., a Delaware corporation (the "Company"), and several of its subsidiaries (together with the Company, the "Debtors") filed a petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The Debtors are authorized to operate their business and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. On June 2, 2003, the Bankruptcy Court entered a number of orders enabling the Company to continue regular operations throughout the reorganization proceedings. On June 18, 2003, the Bankruptcy Court approved $300 million of debtor in possession financing pursuant to a Post-Petition Credit Agreement, dated as of June 2, 2003, among the Company and certain of its subsidiaries, the financial institutions named therein and Bank of America, N.A. and Wachovia Bank, National Association (the "DIP Credit Agreement"). For a more complete discussion of the DIP Credit Agreement see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- DIP Credit Agreement."

Since the commencement of its chapter 11 cases, the Debtors have been operating as debtors in possession under chapter 11 and conducting business in the ordinary course. Pursuant to the Bankruptcy Code, pre-petition obligations of the Debtors (including obligations under debt instruments) generally may not be enforced against the Debtors, and any actions to collect pre-petition indebtedness are automatically stayed, unless the stay is lifted by the Bankruptcy Court. In addition, as debtors in possession, the Debtors have the right, subject to Bankruptcy Court approval and certain other limitations, to assume or reject executory contracts and unexpired leases.

The Company initially announced that it had reached an agreement in principle with the holders of approximately 52% of the aggregate principal amount of its 7-7/8% Senior Notes due 2005 and 7-7/8% Senior Notes due 2008 (the "Senior Notes") on the terms of a financial restructuring to be implemented through the chapter 11 process. The agreement in principle was subject to numerous conditions and further agreements, including the entry of an order confirming the plan of reorganization contemplated by the proposal. On October 17, 2003, the Company announced that it had determined not to implement the previously announced agreement in principle. Instead, the Company stated that it intended to negotiate new terms for a chapter 11 plan of reorganization with all of its major creditor constituencies. The Company filed a plan of reorganization on January 20, 2005. The Company currently intends to sell substantially all of its assets, subject to either Section 363 of the Bankruptcy Code or a confirmation of a new chapter 11 plan. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" below.

The Company, which was organized in 1987, is the successor corporation to West Point-Pepperell, Inc. through a series of mergers occurring in December 1993. The Company operates its business directly and through its consolidated subsidiaries. The Company is a leading manufacturer, marketer and distributor of an extensive range of bed and bath home fashions ("Home Fashions") products. The Company's trademark brands include ATELIER MARTEX®, BABY MARTEX®, CHATHAM®, GRAND PATRICIAN®, MARTEX®, PATRICIAN®, LADY PEPPERELL®, LUXOR®, SEDUCTION®, STEVENS®, UTICA, and VELLUX®. In addition, certain Home Fashions products are manufactured and sold pursuant to licensing agreements under designer and brand names that include, among others, Ralph Lauren Home, Charisma, Glynda Turley and Disney Home. The Company's products are marketed through leading department stores, mass merchants, specialty stores, institutional channels and WestPoint Stevens Stores Inc.

The Company estimates that it has one of the largest market shares in the domestic sheet and pillowcase market, the domestic bath towel market and the domestic blanket market. The Company also has significant market share in the domestic accessories market, which includes comforters, bedspreads, bed pillows, throw pillows and mattress pads, among others.

As a result of a strategic review of the Company's businesses, manufacturing and other facilities and products, the Board of Directors has approved various restructuring initiatives designed to streamline operations and improve profitability. For a comprehensive discussion of the Company's restructuring initiatives and overall financial condition, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Products

The Company markets a broad range of manufactured and sourced bed, bath and basic bedding products.

Bed and Bath Products, including:

- bath accessories;

- bath rugs;
- bath towels;
- beach towels;
- bedskirts;
- bedspreads;
- comforters and duvet covers;
- decorative throw pillows;
- drapes and valances;
- quilts;
- sheets and pillowcases;
- shower curtains; and
- table covers.

Basic Bedding Products, include:

- bed pillows;
- flocked blankets;
- mattress pads;
- natural fill pillows, comforters and featherbeds;
- woven blankets and throws; and
- heated blankets and mattress pads.

Such products are made from a variety of fabrics, such as chambray, twill, sateen, flannel, linen, cotton and cotton blends and are available in a wide assortment of colors and patterns. The Company has positioned itself as a single-source supplier to retailers of bed and bath products, offering a broad assortment of products across multiple price points. Such product and price point breadth allows the Company to provide a comprehensive product offering for each major distribution channel. For each of the last three years substantially all of the Company's products have consisted of Home Fashions products.

Trademarks and Licenses

The Company's products are marketed under well-known and firmly established trademarks, brand names and private labels. The Company uses trademarks, brand names and private labels as merchandising tools to assist its customers in coordinating their product offerings and differentiating their products from those of their competitors. Registered trademarks include ATELIER MARTEX®, BABY MARTEX®, CHATHAM®, GRAND PATRICIAN®, MARTEX®, PATRICIAN®, LADY PEPPERELL®, LUXOR®, SEDUCTION, STEVENS®, UTICA® and VELLUX®. In 2004 the Company recognized $2 million in revenues for licensing its trademarks to third party manufacturers who produced home fashion products. In addition, products are manufactured and sold pursuant to licensing agreements under designer and brand names that include, among others, Ralph Lauren Home, Disney Home, Charisma and Glynda Turley. A portion of the Company's sales is derived from licensed designer brands. The license agreements for the Company's designer brands generally are for a term of two or three years. Some of the licenses are automatically renewable for additional periods, provided that certain sales thresholds set forth in the license agreements are met. No single license has accounted for more than 13.5% of the Company's total sales volume during any of the last five fiscal years ending on December 31, 2004. The loss of a significant license could have an adverse effect upon the Company's business, which effect could be material. The licensing agreements with fixed expiration dates are: Ralph Lauren Home, December 31, 2005 (The parties are currently negotiating the terms of a new agreement to run through December 31, 2008); Glynda Turley, December 31, 2005; Charisma, March 31, 2010; and Disney Home, December 31, 2005.

Marketing

The Company is committed to developing and maintaining integral relationships with its customers through "Strategic Partnering," a program designed to improve customers' operating results by leveraging the Company's merchandising, manufacturing and inventory management skills. "Strategic Partnering" includes Electronic Data Interchange ("EDI") direct electronic entry systems, "Quick Response" and "Vendor Managed Inventory" customer delivery programs and point-of-sale processing. The Company incorporates Strategic Partnering into its planning, manufacturing and shipping systems, in order to enable it to efficiently and economically anticipate and respond to customers' inventory requirements. As a result, the Company is better able to plan and forecast its own production and inventory requirements. Sales and marketing of the Company's Home Fashions products are conducted through a recently enhanced format consisting of divisions for Bed and Bath Products and Basic Bedding Products, each with supporting domestic sales, marketing and merchandising teams and international sales and marketing teams. Distribution specific teams focused on targeted key accounts are linked with product management, operations, customer service and distribution to service each segment of retail.

The Bed and Bath Products Division and the Basic Bedding Products Division focus sales on the following channels of distribution:

- catalogs;
- chain stores;
- department stores;
- mass merchants;
- specialty stores;
- Warehouse clubs; and
- Healthcare and hospitality institutions.

For the Bed and Bath Products Division and the Basic Bedding Products Division, marketing is comprised of the following functions that create products and services in direct response to recognized consumer trends:

- design;
- marketing;
- advertising;
- licensing;
- consumer research; and
- product innovation.

For the Bed and Bath Products Division and the Basic Bedding Products Division, merchandising is comprised of the following functions:

- product management;
- business management;
- productivity analysis;
- stock keeping unit, or SKU, control; and
- design technology.

The Retail Stores Division is comprised of:

- WestPoint Stevens Stores Inc. -- a wholly owned subsidiary of the Company ("WestPoint Stores") that currently consists of 34 geographically dispersed, value-priced retail outlets throughout the United States, most of which are located in factory outlet shopping centers. WestPoint Stores sells products which are first quality (including overstocks), seconds, discontinued items and other products.

The Company works closely with its major customers to assist them in merchandising and promoting its products to consumers. In addition, the Company periodically meets with its customers in an effort to maximize product exposure and sales and to jointly develop merchandise assortments and plan promotional events specifically tailored to the customer. The Company provides merchandising assistance with store layouts, fixture designs, advertising and point-of-sale displays. A national consumer and trade advertising campaign and comprehensive internet website have served to enhance brand recognition. The Company also provides its customers with suggested customized advertising materials designed to increase its product sales. A heightened focus on consumer research provides needed products on a continual basis.

Approximately 87% of the Company's total sales in 2004 were made to retail establishments in the United States, including catalog retailers, chain and department stores, mass merchants, specialty bed and bath stores, warehouse clubs and WestPoint Stores. Finished products are distributed to retailers directly from the Company's plants. The majority of the remaining portion of the Company's sales of Home Fashions products are through the institutional channel, which includes hospitality and healthcare establishments, as well as laundry supply businesses. In addition to domestic sales, the Company distributes its Home Fashions products for eventual sale to certain foreign markets, principally Australia, Canada, Mexico, Central and South America, the Middle East and the Far East. International operations accounted for approximately 3% of the total revenues of the Company in 2004. On August 28, 2003, one of the Company's foreign subsidiaries, WestPoint Stevens (Europe) Ltd., commenced an insolvency proceeding in the United Kingdom and is in the process of being closed and liquidated.

Inventory Management, Electronic Communication and Delivery

The Company has been recognized as a leader and innovator of advanced technology, as evidenced by its inclusion in the 2004 InformationWeek 500, which recognizes businesses that make innovative use of information technology. The Company deploys a variety of innovative, leading-edge e-commerce applications and has been selected as a preferred vendor for many customers wishing to participate in web-based collaboration programs, Quick Response, EDI and Vendor Managed Inventory. The Company operates a retail merchandising and inventory replenishment system (Inforem®) in conjunction with its forecasting and planning system (Demand Planner® from i2 Technologies, Inc.). It also utilizes ESSBASE® business intelligence tools for inventory optimization and performance measurement to complement the Company's core business systems, including its supply chain, sourcing and logistics systems. The Company combines the use of an advanced, customer order fulfillment system, real-time radio frequency and in-line label printing distribution systems, and in-house transportation to compress the order to delivery cycle time, maintain low inventory levels and achieve high customer scorecard objectives. The Company has placed a strong emphasis on the supply chain and logistics function and believes that continued investment in planning, sourcing, distribution and transportation capabilities will enhance its ability to provide its customers with superior service. For example the Company has recently invested in a project to label product shipments to selected customers using Radio Frequency Identification tags beginning in January 2006.

Customers

The Company is always pursuing strategic relationships with key merchandisers. An important component of the Company's strategy is to increase its share of shelf and floor space by strengthening its partnership with its customers. The Company is working closely with retailers and is sharing information and business practices with them to improve service and achieve higher profitability for both the retailer and the Company.

The Company's Home Fashions products are sold to catalog retailers, chain stores, mass merchants, department stores, specialty stores, warehouse clubs and its own retail stores. The Company's six largest customers in 2004, Federated Department Stores, Inc., J.C. Penney Company, Inc., Kmart Corporation, Sears Roebuck & Co., Inc., Target Corporation and Wal-Mart Stores, Inc. accounted for approximately 51% of the net sales of the Company during the fiscal year ended December 31, 2004. In 2004, sales to Target Corporation and Wal-Mart Stores, Inc. were 13% and 14%, respectively, of the net sales of the Company. Each of such customers has purchased goods from the Company in each of the last 10 years. Representatives of Target Corporation and J.C. Penney Company, Inc. have indicated that they intend to significantly increase their direct sourcing of home fashion products from foreign sources. A loss of any of the largest accounts (or a material portion of any thereof) would have an adverse effect upon the Company's business, which could be material.

Manufacturing

The Company currently uses the latest manufacturing and distribution equipment and technologies in its mills. Management therefore believes that the Company is one of the most efficient manufacturers in the home fashions industry. Over the past five years the Company has spent approximately $220 million to modernize its manufacturing and distribution systems and has spent approximately $18 million of that amount during 2004. The capital expenditures have been used to, among other things, further automate the Company's cut and sew operations and modernize yarn processing. The Company intends to invest approximately $35 million in capital improvements in the aggregate in 2005, which includes the further automation of the cut and sew operations, continued modernization and upgrading of distribution centers and continuation of various restructuring projects. These capital programs have resulted, and are expected to continue to result, in improved product quality, increased efficiency, lower costs and shorter response time to customer orders. As of May 15, 2005, the Company (including its subsidiaries) owns and utilizes approximately 14 manufacturing facilities and leases and utilizes four manufacturing facilities. These facilities are located primarily in the Southeastern United States. As a result of our increased sourcing efforts, the Company has reduced its domestic capacity. See "Item 2. Properties."

Sourcing

The Company has had a long-standing history of domestic and international sourcing of selected component products such as specialty yarns and specialty greige sheeting fabric for use in domestic production of Home Fashions products. Today, the Company views sourcing as a means to drive business growth and improve profitability by providing products and services that accelerate product and packaging innovation resulting in a competitive market advantage. In 2004, the Company imported both component and finished products from 22 countries and has established strong relationships in several key export countries including China, India, Pakistan and Turkey. To accelerate speed to market and improve customer service, the Company successfully implemented third party logistics' operations on the east coast. The Company continues to increase the number of vendors and sourced product categories and estimates that sales from sourced products accounted for roughly 29% of the Company's sales in 2004. Through global sourcing operations, the categories of product offerings by the Company to its customers has been significantly expanded to increase focus on high growth product categories such as bath accessories, rugs and quilts.

The Company's policy on sourcing prohibits the purchase of merchandise that is produced in whole or in part by indentured, prison or illegal immigrant or child labor. The Company requires that vendors certify the locations used for the production of products it purchases and that the vendors submit to compliance inspections from the Company or its representatives to ensure that the Company does not do business with suppliers who violate human rights.

Raw Materials

The principal raw materials used in the manufacture of Home Fashions products are cotton of various grades and staple lengths, polyester and nylon in staple and filament form. Cotton, polyester and nylon presently are available from several sources in quantities sufficient to meet the Company's requirements. The Company is not dependent on any one supplier as a source of raw materials. Since cotton is an agricultural product, its supply and quality are subject to weather patterns, disease and other factors. The price of cotton is also influenced by supply and demand considerations, both domestically and worldwide, and by the cost of polyester. Although the Company has always been able to acquire sufficient quantities of cotton for its operations in the past, any shortage in the cotton supply by reason of weather, disease or other factors could adversely affect the Company's operations. The price of man-made fibers such as polyester and nylon is influenced by demand, manufacturing capacity and costs, petroleum prices, cotton prices and the cost of polymers used in producing man-made fibers. Any significant prolonged petrochemical shortages could significantly affect the availability of man-made fibers and cause a substantial increase in demand for cotton, resulting in decreased availability and, possibly, increased price. The Company also purchases substantial quantities of dyes and chemicals. Dyes and chemicals have been and are expected to continue to be available in sufficient supply from a wide variety of sources. The Company also purchases feathers and down for use as fill for certain products it produces. The supply of feathers and down is influenced by many factors such as the rapidly growing consumer demand in China and Asian influenza which could affect the amount of feathers and down available for export. The Company anticipates that there will be sufficient supply of feathers and down to meet its current demand.

Seasonality; Cyclicality; Inventory

Traditionally, the home fashions industry has been seasonal, with peak sales in the fall. In accordance with industry practice, the Company increases its Home Fashions' inventory levels during the first six months of the year to meet customer demands for the fall peak season. The Company's commitment to EDI, Quick Response, and Vendor Managed Inventory, however, has facilitated a more even distribution of products throughout the calendar year and reduced some of the need to stockpile inventory to meet peak season demands. The Company's increased emphasis on sourcing of products is anticipated to increase the inventory cycle times to account for transit time and quick peaks in demand.

The home fashions industry is also cyclical. While the Company's performance may be negatively affected by downturns in consumer spending, management believes the effects thereof are somewhat mitigated by the Company's large market shares and broad distribution base.

Backlog Orders

The backlog of the Company's unfilled customer orders, believed by management to be firm, was approximately $35 million at April 2, 2005, as compared with approximately $60 million at March 27, 2004. The Company does not believe that its backlogs are a meaningful indicator of its business due in part to its use of Vendor Managed Inventory systems. The Company produces a majority of its inventory to a sales forecast versus an order backlog in order to provide rapid replenishment service to its customers.

Competition

The home fashions industry is highly competitive. The Company competes on the basis of price, quality, design and customer service, among other factors. In the sheet, towel and blanket markets, the Company competes primarily with Springs Industries, Inc. In the other bedding and accessories markets, the Company competes with many companies, most of which are much smaller in size than the Company. The Company has pursued a competitive strategy focused on providing the best fashion, quality, service and value to its customers and to the ultimate consumer. The Company believes that there has been a continuing increase in the sale of imported Home Fashions products in the domestic market which is expected to increase with the lifting of import quotas in 2005 and is actively pursuing its own foreign sourcing opportunities to meet the demand for such products. There can be no assurance that foreign competition will not grow to a level that could have an adverse effect upon the Company's ability to compete effectively.

Other Operations

The Company's operations also include Grifftex Chemicals ("Grifftex"), which formulates chemicals primarily used in the Company's finishing processes, and WestPoint Stevens Graphics ("Graphics"), which prints product packaging and labeling. Neither Grifftex nor Graphics represent a material portion of the Company's business.

Research and Development

Management believes that research and development in product innovation and differentiation is important to maintain the Company's competitive edge. The Company continually seeks to develop new specialty finishes and finishing techniques that would improve fabric quality and enhance fabric aesthetics. Research also is conducted to develop new products in response to changing customer demands and environmental concerns. The Company has continued to invest in product development to maintain a leadership position in the market place.

Environmental Matters

The Company is subject to various federal, state and local environmental laws and regulations governing, among other things, the storage, handling, usage, discharge and disposal of a variety of hazardous and non-hazardous substances and wastes used in or resulting from its operations, including, but not limited to, the Water Pollution Control Act, as amended; the Clean Air Act, as amended; the Resource Conservation and Recovery Act, as amended; the Toxic Substances Control Act; and the Comprehensive Environmental Response, Compensation and Liability Act.

The Company's operations also are governed by laws and regulations relating to employee safety and health, principally the Occupational Safety and Health Act and regulations thereunder which, among other things, establish exposure limitations for cotton dust, formaldehyde, asbestos and noise, and regulate chemical, physical and ergonomic hazards in the workplace.

Although the Company does not expect that compliance with any of the aforementioned laws and regulations will have a material adverse effect on its capital expenditures, earnings or competitive position in the foreseeable future, there can be no assurances that environmental requirements will not become more stringent in the future or that the Company will not incur significant costs in the future to comply with such requirements.

Employees

The Company (including its subsidiaries) employed approximately 9,730 active employees as of May 31, 2005. The Company believes that its relations with its employees are excellent. The Company has not experienced a strike or work stoppage by any of its unionized employees during the past 20 years. Currently, less than 5% of the Company's employees are unionized.

The Company has developed an effective employee relations and communications program that includes rules and regulations for employee conduct and procedures for employee complaints. This long-standing program focuses on and, in the view of management, has resulted in, strong, positive employee relations practices, good working conditions, progressive human resources policies and expansive safety programs.

Other Factors

This Annual Review includes "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, with respect to the Company's business, financial condition and results of operations. Statements that use the terms "believe," "anticipate," "expect," "plan," "intend," "estimate," "project" and similar expressions in the affirmative and the negative are intended to identify forward-looking statements. These statements reflect the Company's current views with respect to future events and are based on current assumptions, expectations, estimates and projections about the Company's business and the markets in which it operates and are subject to risks and uncertainties. Actual events (including the Company's results) could differ materially from those anticipated in these forward-looking statements as a result of various factors which include, but are not limited to, the following: uncertainties exist related to the Company's having filed a chapter 11 petition and the reorganization proceedings resulting therefrom; product margins may vary from those projected; raw material prices may vary from those assumed; additional reserves may be required for bad debts, returns, allowances, governmental compliance costs, or litigation; there may be changes in the performance of financial markets or fluctuations in foreign currency exchange rates; unanticipated natural disasters could have a material impact upon results of operations; there may be changes in the general economic conditions which affect customer payment practices or consumer spending; competition for retail and wholesale customers, pricing and transportation of products may vary from time to time due to seasonal variations or otherwise; customer preferences for our products can be affected by competition, or general market demand for domestic or imported goods or the quantity, quality, price or delivery time of such goods; there could be an unanticipated loss of a material customer or a material license; there may be changes in governmental standards for the Company's products that materially affect the cost of production or availability of raw materials; the availability and price of raw materials could be affected by weather, disease, energy costs or other factors. In addition, consideration should be given to any other risks and uncertainties discussed in other documents filed by the Company with the Securities and Exchange Commission. Except as required by applicable law, the Company assumes no obligation to update or revise publicly any forward-looking statements, whether as the result of new information, future events or otherwise.

Item 2. Properties

The Company's properties are owned or leased directly and indirectly through its subsidiaries. Management believes that the Company's facilities and equipment are in good condition and sufficient for current operations. The Company owns office space in West Point, Georgia, and Valley, Alabama, and leases various additional office space, including approximately 140,000 square feet in New York City, of which approximately 36,000 square feet is subleased to other tenants. The Company also leases approximately 14,000 square feet elsewhere for other administrative, storage and office space.

The Company and its subsidiaries own and utilize 14 manufacturing facilities located in Alabama, Florida, Maine, North Carolina, and South Carolina which contain in the aggregate approximately 6,010,480 square feet of floor space and lease and utilize four manufacturing facilities in Alabama and North Carolina which contain in the aggregate approximately 528,792 square feet of floor space.

The Company owns a chemical plant containing approximately 43,000 square feet of floor space from which Grifftex Chemicals operates. In addition, the Company owns a printing facility consisting of 38,000 square feet in which Graphics prints product packaging and labeling.

The Company and its subsidiaries also own and operate 11 distribution centers and warehouses for their operations which contain approximately 4,059,284 square feet of floor space. In addition, the Company and its subsidiaries lease and operate three distribution outlets and warehouses containing approximately 567,190 square feet of floor space.

WestPoint Stores owns two retail outlet stores and leases its 32 other retail stores, all of which are dispersed throughout the United States.

The properties owned by the Company are subject to liens held by the Company's secured lenders. See "Item 8. Financial Statements and Supplementary Data -- Notes to Consolidated Financial Statements -- 3. Indebtedness and Financial Arrangements."

Item 3. Legal Proceedings

Except as stated below, as of the Petition Date, the following actions in which the Company is a defendant have been enjoined from further proceedings pursuant to section 362 of the Bankruptcy Code. To the extent parties have filed timely proofs of claim, the Bankruptcy Court will determine the amount of their pre-bankruptcy claims against the Company. In certain instances, the Bankruptcy Court may permit actions to proceed to judgment for the purpose of determining the amount of the pre-bankruptcy claim against the Company. Lawsuits based on facts arising solely after the commencement of the Company's chapter 11 case are not stayed by section 362 of the Bankruptcy Code.

On October 5, 2001, a purported stockholder class action suit, entitled *Norman Geller v. WestPoint Stevens Inc., et al.* (the *"Geller* action"), was filed against the Company and certain of its former officers and directors in the United States District Court for the Northern District of Georgia. (A subsequent and functionally identical complaint was also filed.) The actions were consolidated by Order dated January 25, 2002. Plaintiffs served a Consolidated Amended Complaint (the "Amended Complaint") on March 29, 2002. The Amended Complaint asserted claims against all Defendants under § 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder and against the Company and Defendant Holcombe T. Green, Jr. as "controlling persons" under § 20(a) of the Exchange Act. The Amended Complaint alleged that, during the putative class period (i.e., February 10, 1999, to October 10, 2000), the Company and certain of its officers and directors caused false and misleading statements to be issued regarding, inter alia, alleged overcapacity and excessive inventories of the Company's towel-related products and customer demand for such products and that certain Individual Defendants wrongfully sold or pledged Company stock at inflated prices for their benefit. The Amended

Complaint referred to the Company's press releases and quarterly and annual reports on Securities and Exchange Commission Forms 10-Q and 10-K, which discussed the Company's results and forecasts for the fiscal years 1999 and 2000. Plaintiffs alleged that these press releases and public filings were false and misleading because they failed to disclose that the Company allegedly "knew sales would be adversely affected in future quarters and years." Plaintiffs also alleged in general terms that the Company materially overstated revenues by making premature shipments of products.

The Company's insurance carrier reached an agreement to settle the *Geller* action at no cost to the Company. The settlement was approved by the Bankruptcy Court and received final approval through a fairness hearing before the United States District Court for the Northern District of Georgia on November 16, 2004.

On March 11, 2002, a shareholder derivative action, entitled *Gordon Clark v. Holcombe T. Green, Jr., et al.* (the *"Clark* action"), was filed against certain of the Company's former directors and officers in the Superior Court of Fulton County, Georgia. The Complaint alleged that the named individuals breached their fiduciary duties by acting in bad faith and wasting corporate assets. The Complaint also asserted claims under Georgia Code Ann. §§ 14-2-740 to 14-2-747 and 14-2-831. The claims were based on the same or similar facts as were alleged in the *Geller* action.

The Clark action was voluntarily dismissed on June 28, 2004.

On July 1, 2002, a shareholder derivative action, entitled *John Hemmer v. Holcombe T. Green, Jr., et al.* (the *"Hemmer* action"), was filed against Mr. Green and certain of the Company's other current and former directors including Messrs. Hugh M. Chapman, John F. Sorte and Ms. M. Katherine Dwyer in the Court of Chancery in the State of Delaware in and for New Castle County. The Complaint alleged that the named individuals breached their fiduciary duties and knowingly or recklessly failed to exercise oversight responsibilities to ensure the integrity of the Company's financial reporting. The Complaint also asserted that certain of the named individuals used proprietary Company information in selling or pledging Company stock at inflated prices for their benefit. The claims were based on the same or similar facts as were alleged in the *Geller* action.

The Hemmer action was voluntarily dismissed on August 25, 2004.

On March 21, 2002, an Adversary Complaint of Debtors and Debtors in Possession Against WestPoint Stevens Inc. was filed by Pillowtex, Inc., a Delaware corporation, *et al.,* and Pillowtex Corporation, *et al.*, against the Company in the United States Bankruptcy Court for the District of Delaware. Pillowtex Corporation and its related and affiliated companies ("Pillowtex") as Debtors and Debtors in Possession allege breach of a postpetition contract (the "Sale Agreement") dated January 31, 2001, among Pillowtex, Ralph Lauren Home Collection, Inc. ("RLH") and Polo Ralph Lauren Corporation ("PRLC") collectively referred to as "Ralph Lauren" and the Company. Pillowtex alleges that the Company refused to perform its purchase obligation under the Sales Agreement and is liable to it for $4,800,000 plus potentially significant other consequential damages. The Company believes that the complaint is without merit and intends to contest the action vigorously. The case is currently stayed due to the Company's bankruptcy filing.

The Company is subject to various federal, state and local environmental laws and regulations governing, among other things, the discharge, storage, handling and disposal of a variety of hazardous and nonhazardous substances and wastes used in or resulting from its operations and potential remediation obligations thereunder. Certain of the Company's facilities (including certain facilities no longer owned or utilized by the Company) have been cited or are being investigated with respect to alleged violations of such laws and regulations. The Company is cooperating fully with relevant parties and authorities in all such matters. The Company believes that it has adequately provided in its financial statements for any expenses and liabilities that may result from such matters. The Company also is insured with respect to certain of such matters. The Company's operations are governed by laws and regulations relating to employee safety and health which, among other things, establish exposure limitations for cotton dust, formaldehyde, asbestos and noise, and regulate chemical and ergonomic hazards in the workplace.

Although the Company does not expect that compliance with any of such laws and regulations will adversely affect the Company's operations, there can be no assurance such regulatory requirements will not become more stringent in the future or that the Company will not incur significant costs in the future to comply with such requirements.

The Company and its subsidiaries are involved in various other legal proceedings, both as plaintiff and as defendant, which are normal to its business. It is the opinion of management that the aforementioned actions and claims, if determined adversely to the Company, will not have a material adverse effect on the financial condition or operations of the Company taken as a whole.

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

During the fourth quarter of fiscal year 2004, no matters were submitted by the Company to a vote of its security holders.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Common Stock of the Company became eligible for trade reporting on the Automated Confirmation Transaction Service ("ACT") under the ticker symbol "WSPTQ.PK" effective May 9, 2005. Prior thereto, the Company's Common Stock was quoted on the Over the Counter Bulletin Board ("OTCBB") under the ticker symbol "WSPQE.OB." Such listing became effective on January 30, 2003. Prior thereto, the Company's Common Stock was listed on the New York Stock Exchange ("NYSE") under the ticker symbol WXS from October 15, 1999.

The following table presents the high and low sales prices of the Company's Common Stock as reported by the NYSE and the high and low bid prices as reported by the OTCBB, as applicable, for each full quarterly period within the two most recent fiscal years:

Quarter Ended	Share Price			
	2004		2003	
	High	Low	High	Low
March 31	$0.03	$0.01	$0.68	$0.26
June 30	$0.02	$0.01	$0.44	$0.02
September 30	$0.02	$0.01	$0.03	$0.01
December 31	$0.04	$0.01	$0.03	$0.01

Under its existing credit facilities, the Company is not permitted to pay dividends. For an additional discussion of these restrictions on the payment of dividends see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

As of April 20, 2005, there were approximately 3,700 holders of the Company's Common Stock. Of that total, approximately 300 were stockholders of record and approximately 3,400 held their stock in nominee name through the Depository Trust Company.

The Company currently anticipates that all of the currently outstanding shares of its Common Stock will be cancelled pursuant to the plan which it has proposed under chapter 11 of the Bankruptcy Code.

Website Access

Our website address is www.westpointstevens.com. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports at our investor relations website, http://phx.corporate-ir.net/phoenix.zhtml?c=82626&p=irol-irhome under the headings “Annual Reports” and “SEC Filings.” You may also find our Code of Business Conduct and Ethics and our Audit Committee Charter on our website under the heading “Corporate Governance.” These reports are available on our investor relations website as soon as reasonably practicable after we electronically file them with the SEC. The information on our website is not part of or incorporated by reference in this Annual Review.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2004 (except as otherwise specified in the footnotes).

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,020,882	$16.91	3,259,220(1)(2)
Equity compensation plans not approved by security holders	20,000	$14.50	41,351(3)
Total	3,040,882	$16.89	3,300,571(1)(2)(3)

(1) Includes 3,166,498 shares available for grant under the Omnibus Stock Incentive Plan (the "OSIP"), 22,000 restricted shares granted but not vested under the OSIP, 7,500 restricted shares vested but not issued under the OSIP, 43,926 shares earned but not vested and 19,296 shares vested but not issued under the Key Employee Stock Bonus Plan (the "KESB Plan").

(2) The KESB Plan was first approved by equity holders at the Company's annual meeting on May 15, 1996, and re-approved in amended form at the Company's annual meeting on May 9, 2001. Under the terms of the KESB Plan the number of shares available for issuance is not limited but is established by a formula in the KESB Plan which is subject to administration by the Compensation Committee (the "Committee") of the Board of Directors in its discretion. Under the KESB Plan, each year participants, if any, are selected by the Committee to receive an award entitling each participant to receive shares of Common Stock of the Company in a number equal to the quotient obtained by dividing 80% of the participant's base salary by the fair market value of one share of Common Stock on the first day of the year; provided that such award is earned by the Company achieving a pre-determined earnings per share established by the Committee within the first ninety (90) days of the year. In February 2003, the Committee suspended participation in the KESB Plan for 2003. Since filing its petition for relief under chapter 11 of the Bankruptcy Code, the Company has not issued any stock pursuant to the KESB Plan. The Company does not anticipate issuing any additional shares of its Common Stock pursuant to the KESB Plan and anticipates the KESB Plan will be terminated in the chapter 11 case.

(3) Includes 41,351 shares under the Company's Supplemental Retirement Plan ("SRP"). The Company's SRP provides for payment of amounts that would have been paid under the WestPoint Pension Plan but for the limitations on covered compensation and benefits applicable to qualified retirement plans imposed by the Internal Revenue Code of 1986, as amended (the "Code"). For certain participants, the compensation taken into account under the Supplemental Retirement Plan is limited to the lesser of (i) $300,000 or (ii) 120% of the participant's base salary. The Supplemental Retirement Plan is not qualified under Section 401(a) of the Code and benefits are paid from the general assets of the Company. The SRP was not approved by the security holders of the Company. The Company does not anticipate issuing any additional shares of its Common Stock pursuant to the SRP and anticipates the SRP will be terminated in the chapter 11 case.

Item 6. Selected Financial Data

Intentionally Omitted.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Chapter 11 Case and Basis of Presentation

As more fully disclosed in Note 2 to the consolidated financial statements, on June 1, 2003, the Company and several of its subsidiaries each commenced with the Bankruptcy Court a voluntary case under chapter 11 of the Bankruptcy Code. The Bankruptcy Code prevents creditors and other parties in interest from taking certain actions, including enforcement actions, against the Debtors, without first obtaining prior approval of the Bankruptcy Court. In addition, the Company has entered into the DIP Credit Agreement, which is more fully described below. On August 28, 2003, one of the Company’s foreign subsidiaries, WestPoint Stevens (Europe) Ltd., commenced an insolvency proceeding in the United Kingdom and is in the process of being liquidated, and inactive subsidiaries have applied to be dissolved.

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States on a going concern basis. Except as otherwise disclosed, these principles assume that assets will be realized and liabilities will be discharged in the ordinary course of business. The Company is currently operating as a debtor in possession under chapter 11 of the Bankruptcy Code, and its continuation as a going concern is contingent upon, among other things, the confirmation by the Bankruptcy Court of a chapter 11 plan of reorganization and its ability to comply with the DIP Credit Agreement, return to profitability, generate sufficient cash flows from operations and obtain financing sources to meet future obligations. There is no assurance that the Company will be able to achieve any of these results. The Company's consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of these uncertainties.

Whether as a result of its case under chapter 11 or otherwise, the Company may sell or otherwise dispose of assets, and liquidate or settle liabilities, for amounts other than those reflected in the financial statements. Additionally, the amounts reported on the consolidated balance sheets could materially change because of changes in business strategies and the effects of any proposed plan of reorganization.

The Company’s consolidated financial statements are presented in accordance with AICPA Statement of Position 90-7 ("Financial Reporting by Entities in Reorganization Under the Bankruptcy Code") ("SOP 90-7"). In the chapter 11 case, substantially all unsecured liabilities as of the Petition Date are subject to compromise or other treatment under a plan of reorganization which must be confirmed by the Bankruptcy Court after submission to any required vote by affected parties. For financial reporting purposes, the categories of liabilities and obligations whose treatment and satisfaction are dependent on the outcome of the chapter 11 case have been classified as Liabilities Subject to Compromise in the consolidated balance sheets. The ultimate amount of and settlement terms for the Company’s pre-bankruptcy liabilities are subject to the ultimate outcome of its chapter 11 case and, accordingly, are not presently determinable. Pursuant to SOP 90-7, professional fees associated with the chapter 11 case are expensed as incurred and reported as reorganization costs (chapter 11 expenses). Also, interest expense will be reported only to the extent that it will be paid during the pendency of the chapter 11 case or that it is probable that it will be an allowed claim.

Senior Credit Facility and Second-Lien Facility Amendments

Effective March 31, 2003, the Company's Senior Credit Facility was amended primarily to provide for an interim facility limitation and to add an unused commitment fee. At the option of the Company and effective with the last amendment to the Senior Credit Facility, interest under the Senior Credit Facility was payable monthly, either at the prime rate plus 5.25% or at LIBOR plus 7.00%, compared to prime rate plus 2.75% or LIBOR plus 4.50% in effect at December 31, 2002. Effective with the chapter 11 filing, loans under the Senior Credit Facility are no longer available to the Company. Prior to the Petition Date, the Company was also obligated to pay a facility fee in an amount equal to 0.50% of each Bank's commitment under the Revolver, and an unused commitment fee in an amount equal to 1.00% of the difference between the revolver commitment and the daily outstanding loans and letters of credit. As of the Petition Date, the Company is no longer obligated to pay a facility fee or an unused commitment fee for the Senior Credit Facility.

At March 31, 2003 and prior to the petition date, the Company was not in compliance with certain of its covenants under the Senior Credit Facility and Second-Lien Facility during which time the Company engaged in active discussions with its senior lenders to obtain an amendment or waiver of such non-compliance (See Note 2. Chapter 11 Filing where the chronology of the circumstances causing the Company to file voluntary petition for reorganization under chapter 11 of the U. S. Bankruptcy Code is discussed).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

DIP Credit Agreement

The Company is a party to the DIP Credit Agreement which provides a facility consisting of revolving credit loans of up to $300 million (with a sublimit of $75 million for letters of credit) with an initial term of one year and an initial maturity date of June 2, 2004. At its option, the Company may extend the term for up to two successive periods of six months each. On April 28, 2004 and November 1, 2004, the Company exercised its options to extend the DIP Credit Agreement for additional six month periods, revising the maturity date to June 2, 2005. In March 2005, the Company initiated discussions with its DIP lenders to extend the maturity date of the DIP Credit Agreement beyond June 2, 2005, and on May 17, 2005 the Bankruptcy Court approved an amendment to the DIP Credit Agreement extending the maturity date to the earliest to occur of December 2, 2005 or the consummation of a sale, pursuant to Section 363 of the Bankruptcy Code or pursuant to a confirmed plan of reorganization or liquidation pursuant to chapter 11 of the Bankruptcy Code.

Initial advances under the DIP Credit Agreement bore interest at a fluctuating rate per annum equal to LIBOR plus a margin of 2.75% or, at the Company's option, prime plus a margin of 0.75%. Each margin is subject to quarterly adjustments, commencing November 1, 2003, pursuant to a pricing matrix, based on average availability, having a range of 2.25% to 3.00% for LIBOR based loans and 0.25% to 1.00% for prime based loans. The DIP Credit Agreement also has an unused line fee of 0.625% per annum, subject to quarterly adjustments as above having a range of 0.375% to 0.75%. Effective November 1, 2003, as a result of average availability, interest rates under the DIP Credit Agreement decreased to LIBOR plus 2.50% or, at the Company’s option, prime plus 0.50% and the unused line fee decreased to 0.50%. Effective February 1, 2004, as a result of average availability, interest rates under the DIP Credit Agreement increased to LIBOR plus 2.75% or, at the Company’s option, prime plus 0.75% and the unused line fee increased to 0.625%. Effective February 1, 2005, as a result of average availability, interest rates under the DIP Credit Agreement decreased to LIBOR plus 2.50% or, at the Company’s option, prime plus 0.50% and the unused line fee decreased to 0.50%.

The DIP Credit Agreement contains a number of covenants, including among others, affirmative and negative covenants with respect to certain financial tests and other indebtedness, as well as restrictions against the declaration or payment of dividends, the making of certain intercompany advances and the disposition of assets without consent. The DIP Credit Agreement also contains Events of Default (as defined in the DIP Credit Agreement) including among others, a failure to pay the principal and interest of the obligations when due, default with respect to any Debt (as defined in the DIP Credit Agreement) and a failure by the Company to comply with any provisions of the Financing Orders (as defined in the DIP Credit Agreement).

During the third quarter of 2003, the Company’s DIP Credit Agreement was amended primarily to modify the minimum EBITDA covenant, add a minimum availability covenant, permit certain restructuring, impairment and other charges and modify other miscellaneous provisions. During the second quarter of 2004, the Company’s DIP Credit Agreement was amended to clarify certain asset sale provisions, and during the third quarter of 2004, the DIP Credit Agreement was amended primarily to modify the minimum EBITDA and minimum availability covenants to permit certain inventory reduction plans. During the fourth quarter of 2004, the Company’s DIP Credit Agreement was amended primarily to permit certain restructuring, impairment and other charges and modify the minimum EBITDA and minimum availability covenants. During the second quarter of 2005, the Company’s DIP Credit Agreement was amended primarily to modify certain miscellaneous provisions related to audited financial statements and to extend the maturity date beyond the originally stated maturity date including extension options. At December 31, 2004, the Company was in compliance with its covenants under the DIP Credit Agreement.

There can be no assurance, however, that the Company will be able to comply with the debt covenants or that, if it fails to do so, it will be able to obtain amendments to or waivers of such covenants. Failure of the Company to comply with covenants contained in its DIP Credit Agreement, if not waived, or to adequately service debt obligations, could result in a default under the DIP Credit Agreement. Any default under the Company’s DIP Credit Agreement, particularly any default that results in acceleration of indebtedness or foreclosure on collateral, could have a material adverse effect on the Company.

Restructuring, Impairment, and Other Charges

In 2000, the Company announced that its Board of Directors had approved an Eight-Point Plan, which was created to be the guiding discipline for the Company in a global economy. The Board also approved a pretax charge for restructuring, impairment and other charges to cover the initial cost of implementing the Eight-Point Plan that was designed to streamline operations and improve profitability. The Eight-Point Plan addresses the following points: 1) expand brands; 2) explore new licensing opportunities; 3) rationalize manufacturing; 4) reduce overhead; 5) increase global sourcing; 6) improve inventory utilization; 7) enhance supply chain and logistics; and 8) improve capital structure.

On September 20, 2002, the Company announced that its Board of Directors had approved additional restructuring initiatives to increase asset utilization, lower manufacturing costs and increase cash flow and profitability through reallocation of production assets from bath products to basic bedding products and through rationalization of its retail stores division. The Company initially expected the restructuring initiatives to result in a $36.5 million pretax charge for restructuring, impairment and other charges, with approximately $20 million of the pretax charge expected to be non-cash items. As a result of additions to the initial restructuring initiatives related to the closure of its Rosemary (NC) towel fabrication and distribution facilities and its WestPoint Stevens (Europe) Ltd. foreign subsidiary, the Company's restructuring initiatives resulted in a $47.7 million pretax charge for restructuring, impairment and other charges, with approximately $31.7 million of the pretax charge being non-cash items. All charges were recorded in accordance with Statement of Financial Accounting Standard ("SFAS") No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The restructuring charge approved in 2002 was completed in the second quarter of 2004.

As a result of the restructuring initiatives begun in 2002, the Company announced the closure of its Rosemary (NC) towel finishing facility, the conversion of its Rosemary (NC) towel fabrication and distribution facilities to basic bedding facilities and the closure of its Dalton (GA) utility bedding facility. The Company announced on April 25, 2003 that the Rosemary (NC) towel fabrication and distribution facilities that were previously disclosed as being converted to basic bedding facilities would now be closed. The Company also announced the closure of twenty-two retail stores and the closure of its WestPoint Stevens (Europe) Ltd. foreign subsidiary.

The cost of the manufacturing and retail store rationalization and certain overhead reduction costs were reflected in a restructuring and impairment charge of $6.6 million, before taxes, in 2002, a restructuring and impairment charge of $12.6 million, before taxes, in 2003 and a restructuring and impairment charge of $0.4 million, before taxes, in 2004. The components of the restructuring and impairment charge in 2002 included $4.4 million for the impairment of fixed assets and $2.2 million in reserves to cover cash expenses related primarily to severance benefits. The components of the restructuring and impairment charge in 2003 included $7.0 million for the impairment of fixed assets and $5.6 million in reserves to cover cash expenses related to severance benefits of $5.2 million and other exit costs. The components of the restructuring and impairment charge in 2004 included $0.4 million in reserves to cover cash expenses related to severance benefits.

During 2002, 2003 and 2004 as a result of restructuring initiatives approved in 2002, the Company has terminated and agreed to pay severance (including continuing termination benefits) to approximately 500 employees.

Restructuring, Impairment, and Other Charges--Continued

The following is a summary of the restructuring and impairment activity in the related reserves (in millions):

	Writedown Assets	Employee Termination Benefits	Other Exit Costs	Total Charge
2002 Restructuring and Impairment Charge:				
Third Quarter	$ 4.3	$ 1.6	$ -	$ 5.9
Fourth Quarter	0.1	0.5	0.1	0.7
Total 2002 Charge	4.4	2.1	0.1	6.6
2003 Restructuring and Impairment Charge:				
First Quarter	0.2	0.8	0.4	1.4
Second Quarter	6.8	4.3	0.8	11.9
Third Quarter	0.8	0.2	-	1.0
Fourth Quarter	(0.8)	(0.1)	(0.8)	(1.7)
Total 2003 Charge	7.0	5.2	0.4	12.6
2004 Restructuring and Impairment Charge:				
First Quarter	-	0.2	-	0.2
Second Quarter	-	0.2	-	0.2
Total 2004 Charge	-	0.4	-	0.4
Writedown Assets to Net Recoverable Value	(11.4)	-	-	(11.4)
2002 Cash Payments	-	(1.5)	-	(1.5)
2003 Cash Payments	-	(4.6)	(0.4)	(5.0)
2004 Cash Payments	-	(1.6)	(0.1)	(1.7)
Balance at December 31, 2004	$ -	$ -	$ -	$ -

During 2002, other costs of the restructuring initiatives of $11.6 million, before taxes, were recognized consisting of inventory writedowns of $10.5 million primarily related to the rationalization of its retail stores division and other expenses of $1.1 million, consisting primarily of related unabsorbed overhead, all reflected in cost of goods sold. During 2003, other costs of the restructuring initiatives of $16.0 million, before taxes, were recognized consisting of inventory writedowns of $8.4 million primarily related to the closure of its foreign subsidiary and the rationalization of its retail stores division, accounts receivable writedowns for claims of $1.4 million related to the closure of its foreign subsidiary and other expenses of $6.2 million, consisting primarily of $4.1 million of related unabsorbed overhead, $1.2 million for the relocation of machinery and other expenses of $0.9 million, all reflected in cost of goods sold. During 2004, other costs of the restructuring initiatives of $0.4 million, before taxes, were recognized for relocation of machinery, all reflected in cost of goods sold.

During the third quarter of 2003, the Company's Board of Directors approved additional restructuring initiatives to increase asset utilization, lower manufacturing costs and increase cash flow and profitability through a further realignment of manufacturing capacity. Costs of restructuring initiatives may result in restructuring, impairment and other pretax charges of up to $84.3 million, of which up to $55.6 million of the pretax charge may relate to non-cash items. The charges for the restructuring initiatives began in the fourth quarter of 2003 and will continue into 2005 in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* SFAS No. 112, *Employers' Accounting for Postemployment Benefits* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Restructuring, Impairment, and Other Charges--Continued

As a result of the restructuring initiatives begun in 2003, the Company announced the closure of its Dunson (GA) sheeting facility, its Dixie (GA) towel facility, its Coushatta (LA) utility bedding facility, its Fairfax (AL) towel greige facility and its Longview (NC) bed accessory facility (which was announced on October 1, 2004). The Company also announced the conversion of its Lanier (AL) sheeting facility to towel production and the conversion of its Greenville (AL) blanket facility to a utility bedding facility. The Company is in the process of determining any remaining facilities that may be affected by its ongoing reorganization efforts. These plant closings and conversions will provide the Company with greater production efficiency and better-aligned capacity to compete more effectively in a global economy.

The cost of the manufacturing rationalization was reflected in a restructuring and impairment charge of $37.0 million, before taxes, in 2003 and a restructuring and impairment charge of $19.0 million, before taxes, in 2004. The restructuring and impairment charge in 2003 reflected the impairment of fixed assets. The components of the restructuring and impairment charge in 2004 included $9.4 million for the impairment of fixed assets and $9.6 million in reserves to cover cash expenses related to severance benefits.

During 2004 and 2005 as a result of restructuring initiatives approved in 2003, the Company has terminated and agreed to pay severance (including continuing termination benefits) to approximately 650 employees.

The following is a summary of the restructuring and impairment activity in the related reserves (in millions):

	Writedown Assets	Employee Termination Benefits	Other Exit Costs	Total Charge
2003 Restructuring and Impairment Charge:				
Fourth Quarter	$ 37.0	$ -	$ -	$ 37.0
2004 Restructuring and Impairment Charge:				
First Quarter	-	4.6	-	4.6
Second Quarter	1.8	1.5	-	3.3
Third Quarter	7.6	2.8	-	10.4
Fourth Quarter	-	0.7	-	0.7
Total 2004 Charge	9.4	9.6	-	19.0
Writedown Assets to Net Recoverable Value	(46.4)	-	-	(46.4)
2004 Cash Payments	-	(6.8)	-	(6.8)
Balance at December 31, 2004	$ -	$ 2.8	$ -	$ 2.8

During 2003, other costs of the restructuring initiatives of $1.4 million, before taxes, were recognized consisting of inventory writedowns of $1.0 million and other expenses of $0.4 million, consisting of related unabsorbed overhead, all reflected in cost of goods sold. During 2004, other costs of the restructuring initiatives of $16.4 million, before taxes, were recognized consisting of $1.7 million for inventory writedowns, $9.8 million of related unabsorbed overhead, $4.7 million for the relocation of machinery and other expenses of $0.2 million, all reflected in cost of goods sold.

During the third quarter of 2004, the Company's Board of Directors, as part of the development of a revised business plan, approved additional restructuring initiatives to increase asset utilization, lower manufacturing costs and increase cash flow and profitability. Costs of restructuring initiatives may result in restructuring, impairment and other pretax charges of up to $226.8 million, of which up to $139.1 million of the pretax charge may relate to non-cash items (including accelerated depreciation expense). The charges for the restructuring initiatives began in the fourth quarter of 2004 and will continue into

Restructuring, Impairment, and Other Charges--Continued

2006 in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, SFAS No. 112, *Employers' Accounting for Postemployment Benefits* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

As a result of the restructuring initiatives begun in 2004, the Company announced the closure of its Alamance (SC) sheet fabrication and distribution facility, its Clemson (SC) greige sheeting, fabrication and distribution facility, its Middletown (IN) utility bedding facility, its Sparks (NV) utility bedding facility and its Drakes Branch (VA) towel greige facility. The Company also announced a significant reduction in workforce at its Clemson (SC) finishing plant. The Company is in the process of determining any remaining facilities that may be affected by its ongoing reorganization efforts. These plant closings will provide the Company with greater production efficiency and better-aligned capacity to compete more effectively in a global economy.

The cost of the manufacturing rationalization was reflected in a restructuring and impairment charge of $33.1 million, before taxes, in 2004 and consisted of reserves to cover cash expenses related to severance benefits.

During 2005 as a result of restructuring initiatives approved in 2004, the Company has terminated and agreed to pay severance (including continuing termination benefits) to approximately 1,900 employees.

The following is a summary of the restructuring and impairment activity in the related reserves (in millions):

	Writedown Assets	Employee Termination Benefits	Other Exit Costs	Total Charge
2004 Restructuring and Impairment Charge:				
Fourth Quarter	$ -	$ 33.1	$ -	$ 33.1
2004 Cash Payments	-	(0.1)	-	(0.1)
Balance at December 31, 2004	$ -	$ 33.0	$ -	$ 33.0

Executive Summary

Overview

The Company operates exclusively in the home fashions industry and recognizes revenue primarily through the sale of Home Fashion products to a variety of retail and institutional customers. The Company also operates 34 retail outlets that sell Home Fashion products including but not limited to WestPoint Stevens' home fashion products. In addition, the Company receives a small portion of its revenues through the licensing of its trade names. For a more detailed description of the Company see "Item 1. Business."

Industry and Company Profile

Cyclicality

The home fashion textile industry has traditionally been a cyclical industry. The practical effect of a down cycle on manufacturing companies, including the Company, is stress on any balance sheet which has a large debt load and pressure on profitability caused by under utilization of plant and equipment.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Continued

Executive Summary--Continued

Industry and Company Profile--Continued

Growth of Imports

The easing of trade restrictions over time has led to growing competition from low priced imported product. This issue will be amplified by the lifting of import quotas on January 1, 2005. Imported sheets and towels have captured 50% and 65%, respectively, of the U.S. market in 2004 according to U.S. Census data. Domestic suppliers, including the Company, have contributed to the import total by buying product overseas for resale domestically. Approximately 29% of the Company's 2004 sales were of imported goods. During the past five years, the Company has closed sixteen domestic manufacturing facilities in favor of importing those products.

Retail Consolidation

Retailers of consumer goods have become fewer and more powerful over time. As buying power has become more concentrated, pricing pressure on vendors has grown. With the ability to buy imported product directly from the foreign source, this pricing leverage has increased. The result has been a negative effect on unit pricing and margins earned on domestically produced products. To combat this trend, domestic producers, such as the Company, are aggressively importing competitively priced goods and utilizing domestic distribution capabilities and the ability to deliver large volumes on short notice to maintain their value to the retail customers.

External Events

Sales and availability of consumer goods are directly impacted by external events. The attacks of 9/11 severely impacted retail sales and vendor shipments nationwide. The west coast dock strike in 2003 kept imported goods from reaching their destinations and was an advantage for domestic suppliers. Snowstorms in 2004 slowed retail sales and closed production facilities.

Raw Material Pricing and Availability

Textile profitability is affected more by raw material pricing than any other single variable. A one cent per pound change in cotton pricing can have an enormous effect on product profitability. Over the past three years the price of cotton has varied by as much as twenty cents per pound, both up and down. The Company employs a hedging strategy to smooth the volatility of the cotton market and to reduce uncertainty in costing. Other raw materials are feathers and down for pillows and comforters and also polyester for sheeting and pillows. Feathers and down are generally imported from China. Pricing is subject to vacillations in supply caused by any number of things. Polyester prices vary with the price of petroleum.

Working Capital Management

Inventory management is the most critical variable to the success of a textile company. Inventory is produced or sourced prospectively based on customer provided forecasts in order to be ready to ship on a quick response basis. Growing sophistication of retail systems has provided the customer with the ability to recognize trends rapidly and to change forecasts on much shorter notice than in the past. This ability presents unique challenges to the manufacturer who produces or sources inventory in advance of anticipated orders. To manage inventory balances, the Company has moved to smaller lot sizes in some cases, but most importantly, the Company has chosen to curtail production where necessary in order not to create unwanted inventory. Curtailment has a negative effect on profitability but preserves cash that would have otherwise been invested in inventory.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Continued

Reconciliation to GAAP

The 2004 consolidated financial statements presented in this document are unaudited and are substantially in accordance with GAAP, but differ from GAAP in regards to the recorded income tax provision. During the 2004 audit (that has not yet been finalized), it was determined that the Company's income tax contingency reserves were excessive, and that certain of the reserves should have been released in prior periods, some dating back several years. Taking into account the Company's overall tax situation (see Note 6. Income Taxes) and in conjunction with proposed prior period restatements of the income tax provisions, the 2004 income tax provision on a GAAP basis would be an income tax expense of $5.2 million as opposed to the indicated income tax benefit of $17.1 million. The 2004 net loss on a GAAP basis would be a loss of $172.3 million as opposed to the indicated loss of $150.0 million. Overall net deferred taxes reflected in the December 31, 2004 unaudited balance sheet are recorded at zero and would not be impacted. However, certain prior periods financial statements would be impacted by the restatement, the amounts of which have not yet been determined.

Results of Operations

The table below is a summary of the Company's operating results for the year ended December 31, 2004 (in millions of dollars and as percentages of net sales).

	Year Ended December 31,		
	2004	2003	2002
Net sales	$1,618.7		
Gross earnings	$ 223.7		
Restructuring and impairment charge	$ 52.5		
Fixed asset impairment charge	$ 7.9		
Operating loss	$ (46.4)		
Interest expense	$ 78.3		
Other expense-net	$ 7.8		
Chapter 11 expenses	$ 34.6		
Loss from operations before taxes	$ (167.1)		
Net loss	$ (150.0)		
Gross margin	13.8%		
Operating margin	(2.9%)		

2004 Compared with 2003

Net Sales. Net sales for the year ended December 31, 2004 decreased $27.5 million, or 1.7%, to $1,618.7 million compared with net sales of $1,646.2 million for the year ended December 31, 2003. The decrease resulted primarily from lower bed products sales, lower retail store sales due to store closures and the closure of our UK operation in 2003, which more than offset increased bath product sales. From a channel perspective, growth with mass merchants and specialty stores was offset by sales declines to department stores.

For the year ended December 31, 2004, bed product sales were $939.2 million compared with $955.5 million in 2003, bath product sales were $558.3 million in 2004 compared with sales of $535.1 million in 2003 and other sales (consisting primarily of sales from the Company's retail stores and foreign operations) were $121.1 million compared with $155.6 million in 2003.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Continued

Results of Operations—Continued

2004 Compared with 2003--Continued

Gross Earnings/Margin*.* Gross earnings for the year ended December 31, 2004 of $223.7 million decreased $60.2 million or 21.2%, compared with $283.9 million for 2003 and reflect a gross margin of 13.8% in 2004 and 17.2% in 2003. Included in gross earnings were costs related to restructuring initiatives of $16.8 million in 2004, the majority of which reflected costs for unabsorbed overhead at affected facilities and equipment relocation and $17.4 million in 2003, which reflected costs for unabsorbed overhead at affected facilities and inventory write-offs primarily related to the rationalization of the retail stores division. Gross earnings and margins decreased primarily as a result lower sales, a higher level of sell-offs to reduce inventory levels, increased raw material costs, accelerated depreciation related to anticipated plant closings and reduced manufacturing efficiencies due to production curtailment which more than offset favorable accounting adjustments to reserves for workers compensation.

Fixed Asset Impairment Charge. The Company recognized a $7.9 million charge for impairment of certain fixed assets for the year ended December 31, 2004 as a result of an evaluation of the recoverability of the Company's fixed assets during the third quarter of 2004.

Goodwill Impairment Charge. The Company recognized a $46.3 million goodwill impairment charge in 2003 that resulted from certain triggering events that occurred during the period including the Company's chapter 11 filing.

Operating Earnings/Margin*.* Selling, general and administrative expenses of $209.6 million in 2004 were 9.5%, or $21.9 million, below 2003 selling, general and administrative expenses of $231.5 million and resulted primarily from lower selling expenses and administrative expenses due to the rationalization of the retail stores division, the closure of our UK operation and other cost reduction efforts, plus lower bad debt expenses and the elimination of the trade receivables program.

Operating earnings for the year ended December 31, 2004 were a loss of $46.4 million compared with a loss of $43.6 million for 2003. Included in operating earnings for the years ended December 31, 2004 and 2003 were costs related to restructuring initiatives of $69.3 million and $67.1 million, respectively, including a restructuring and impairment charge of $52.5 million and $49.6 million, respectively (see Restructuring, Impairment and Other Charges previously discussed). The Company recorded a $7.9 million fixed asset impairment charge related to certain anticipated plant closures with no counterpart in 2003. In 2003 the Company recorded a $46.3 million goodwill impairment charge with no counterpart in 2004.

Interest Expense. Interest expense for the year ended December 31, 2004, of $78.7 million decreased $23.6 million compared with interest expense for the year ended December 31, 2003. Effective with the Company's chapter 11 filing, interest is no longer accrued on the Senior Notes due 2005 and 2008, the impact of which was $78.8 million for 2004 and $46.3 million for 2003. The decrease in interest expenses was offset by higher interest rates on the Company's variable rate bank debt compared with corresponding 2003 average interest rates.

Other Expense-Net. Other expense-net decreased $9.8 million for the year ended December 31, 2004, to $7.8 million from $17.6 million for the year ended December 31, 2003. Charges in 2004 primarily included the amortization of deferred financing fees of $12.5 million, less certain miscellaneous income items including a $6.3 million gain on the sale of assets compared with other expense-net in 2003 of $17.6 million that included $4.9 million in transaction costs associated with an unsuccessful acquisition effort and the amortization of deferred financing fees of $12.3 million.

Chapter 11 Expenses. The Company recognized $34.6 million in bankruptcy reorganization related expenses in 2004 compared with $31.5 million of expenses in 2003. In 2004 these expenses consisted primarily of $4.0 million related to amortization of fees associated with the DIP Credit agreement, $0.5 million in severance associated with the resignation of the Company's former Chairman and Chief Executive Officer, $12.4 million for performance bonuses under a court approved key employee retention program and $17.7 million related to fees payable to professionals retained to assist with the chapter

11 case. In 2003 these expenses consisted primarily of $4.9 million related to the early termination of the Company's Trade Receivables Program, $3.6 million related to amortization of fees associated with the DIP Credit agreement, $1.3 million in severance associated with the resignation of the Company's former Chairman and Chief Executive Officer, $7.6 million for performance bonuses under a court approved key employee retention program and $14.1 million related to fees payable to professionals retained to assist with the chapter 11 case.

Income Tax Expense (Benefit). In 2004 and 2003, the Company recorded a tax benefit of $17.1 million and $61.3 million, respectively. The Company's effective tax rate was 10.2% in 2004 and 31.5% in 2003. The decrease in the effective tax rate was due primarily to non-deductible items related to the Company's chapter 11 expenses and the Company's overall net deferred tax position. See Reconciliation to GAAP discussed above and Note 6 where income taxes are discussed further.

Net Loss. Net loss for fiscal year 2004 was $150.0 million, or a loss of $3.01 per share diluted, and net loss for 2003 was $133.3 million, or a loss of $2.67 per share diluted. Included in net loss for the years ended December 31, 2004, and 2003 were costs related to restructuring initiatives, net of taxes, of $44.4 million and $42.9 million, respectively, as previously discussed, in addition to charges for chapter 11 expenses, the fixed asset impairment charge and the goodwill impairment charge, also previously discussed. See Reconciliation to GAAP discussed above.

Diluted per share amounts are based on 49.9 million average shares outstanding for 2004 and 2003, respectively.

Critical Accounting Policies and Estimates

These policies are considered "critical" because they have the potential to have a material impact on the Company's financial statements and because they require judgments and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States, which require the Company to make estimates and assumptions. See Note 1 -- Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements. Management believes that the following are some of the more critical judgment areas in the application of the Company's accounting policies that currently affect financial condition and results of operations.

Basis of Presentation. The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States on a going concern basis. Except as otherwise disclosed, these principles assume that assets will be realized and liabilities will be discharged in the ordinary course of business. The Company is currently operating as a debtor in possession under chapter 11 of the Bankruptcy Code, and its continuation as a going concern is contingent upon, among other things, confirmation by the Bankruptcy Court of a chapter 11 plan or reorganization and its ability to comply with the DIP Credit Agreement, return to profitability, generate sufficient cash flows from operations and obtain financing sources to meet future obligations. There is no assurance that the Company will be able to achieve any of these results. The Company's consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of these uncertainties.

The Company's consolidated financial statements included elsewhere in this report are presented in accordance with AICPA Statement of Position 90-7 ("Financial Reporting by Entities in Reorganization Under the Bankruptcy Code") ("SOP 90-7"). In the chapter 11 case, substantially all unsecured liabilities as of the Petition Date are subject to compromise or other treatment under a plan of reorganization which must be confirmed by the Bankruptcy Court after submission to any required vote by affected parties. For financial reporting purposes, the categories of liabilities and obligations whose treatment and satisfaction are dependent on the outcome of the chapter 11 case and classified as Liabilities Subject to Compromise in the consolidated balance sheets under SOP 90-7 are identified below (in thousands):

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Continued

Critical Accounting Policies and Estimates--Continued

	December 31,	
	2004	**2003**
Senior Notes due 2005 and 2008:		
Senior Notes outstanding	$1,000,000	
Related accrued interest	36,313	
Related deferred financing fees (less accumulated amortization of $16,569)	(4,647)	
Total	1,031,666	
Accounts payable	30,669	
Pension liabilities	8,394	
Other accrued liabilities	18,762	
Total	$1,089,491	

The ultimate amount of and settlement terms for the Company's pre-bankruptcy liabilities are subject to the ultimate outcome of its chapter 11 case and, accordingly, are not presently determinable. Pursuant to SOP 90-7, professional fees associated with the chapter 11 case are expensed as incurred and reported as reorganization costs (chapter 11 expenses). Also, interest expense will be reported only to the extent that it will be paid during the pendency of the chapter 11 case or that it is probable that it will be an allowed claim. During 2004, the Company recognized charges of $34.6 million for chapter 11 expenses consisting of $12.4 million for performance bonuses under a court approved Key Employee Retention Program, $4.0 million related to the amortization of fees associated with the DIP Credit Agreement, $0.5 million in severance associated with the resignation of the Company’s former Chairman and Chief Executive Officer and $17.7 million related to fees paid to professionals retained to assist with the chapter 11 case. During 2003, the Company recognized charges of $31.5 million for chapter 11 expenses, consisting of $4.9 million related to the early termination of the Company’s Trade Receivables Program, $1.3 million in severance associated with the resignation of the Company’s former Chairman and Chief Executive Officer, $7.6 million for performance bonuses under a court approved Key Employee Retention Program, $3.6 million related to the amortization of fees associated with the DIP Credit Agreement and $14.1 million related to fees payable to professionals retained to assist with the chapter 11 case.

Accounts Receivable. The Company maintains returns and allowances reserves as well as reserves for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The estimation process requires management to make assumptions based on historical results, future expectations, the economic and competitive environment, changes in credit worthiness of customers, and other relevant factors. Changes in these key assumptions can have a significant impact on ultimate cash collections.

The Company believes that the accounting estimate related to the establishment of the allowance for doubtful accounts and the associated provisions in the results of operations is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about the future collectibility of current balances due, as well as the future economic viability of the Company's customer base; and (2) the impact of changes in actual collections versus these estimates could have a material impact on the Company's financial statements. In selecting these assumptions, the Company uses historical trending of write-offs, returns and allowances, overdue status and credit ratings of its customers, estimates of ultimate recoverability from customers in bankruptcy, and other current market indicators about general economic conditions that might impact the collectibility of accounts.

Management believes that its estimates are conservative; however, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Critical Accounting Policies and Estimates--Continued

Inventories. The Company maintains market reserves for estimated obsolete, excess, aged or off-quality inventories in order to properly state inventories at lower of cost or market (net realizable value). Differences between the cost of inventory and the estimated market value are based upon assumptions about future demand, channels of distribution, and market conditions. Changes in these market assumptions can have a significant impact on the estimated net realizable value of inventories.

The Company believes that the accounting estimates related to the establishment of inventory market reserves and the associated provisions in the results of operations is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about future product demand and overall sales prices; and (2) the impact of changes in realized sales prices versus these estimates could have a material impact on the Company's financial statements. In selecting these assumptions, the Company uses historical trending of write-downs and other current market indicators about general economic conditions that might impact the realizability of inventories. As a result of our consideration of these factors, during 2004 the Company recorded $1.7 million of inventory write-downs primarily related to plant closures, resulting from restructuring initiatives.

Management believes that its estimates are conservative; however, if market conditions were to deteriorate, resulting in a markdown of sales prices, additional reserves may be required.

Long-lived Asset Recovery. A significant portion of the Company's total assets consists of long-lived assets, consisting primarily of property, plant and equipment ("PP&E"). Changes in the Company's intended use of these assets, as well as changes in broad economic or industry factors, may cause the estimated period of use or the value of these assets to change. As a part of the bankruptcy process, the Company continues to review its domestic manufacturing capacities which could result in future plant rationalizations.

PP&E are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, the Company must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges. If the carrying amount is more than the recoverable amount, an impairment charge must be recognized, based on the fair value of the asset.

The Company believes that the accounting estimate related to asset impairment is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about future revenues and costs of sales over the life of the asset; and (2) the impact of recognizing an impairment could be material to the Company's financial statements. Management's assumptions about future revenues and cost of sales require significant judgment and could differ from actual results due to changing market conditions and overall product demand.

During the third quarter of 2004, the Company recorded an impairment charge of $7.9 million attributable to certain fixed assets. As a result of the Board of Directors approval of certain restructuring initiatives that are contemplated in the Company’s revised business plan, the Company evaluated the recoverability of long-lived assets and wrote down $7.9 million of fixed assets. The Company was required to reduce the carrying value of certain fixed assets to fair value, and recorded a fixed asset impairment charge because the carrying value of the affected fixed assets exceeded the related projected future undiscounted cash flows. Fair value was determined from market values obtained from third party appraisers.

During 2004 and as a result of the Board of Directors approval of the Company’s revised business plan, the Company also recorded accelerated depreciation expense of $34.2 million on certain fixed assets, other than those fixed assets that were impacted by the long-lived asset impairment charge. The Company adjusted the remaining depreciable lives for the affected fixed assets to be consistent with assumptions in the Company's revised business plan. The accelerated depreciation expense is reflected in cost of goods sold in the accompanying statements of operations.

During 2004, the Company identified certain PP&E that became impaired as a result of restructuring initiatives and related plant closures. The writedown of PP&E during 2004 resulted in a total of $9.4 million of PP&E being impaired.

Critical Accounting Policies and Estimates--Continued

Customer Incentives. The Company maintains reserves for accommodations and incentives that are frequently granted to customers under its sales programs. The estimation process requires management to make assumptions regarding potential credits to be taken by customers based on historical experience and contracted amounts. Changes in these key assumptions could have a significant impact on ultimate credits granted.

The Company believes that the accounting estimates related to the establishment of the reserves for customer accommodations and incentives and the associated provisions in the results of operations is a "critical accounting estimate" because: (1) it requires the Company to make assumptions regarding the customer incentives to be taken and (2) the impact of actual incentives taken versus these estimates could have a material impact on the Company's financial statements.

Legal Reserves. We are a party to legal proceedings with respect to a variety of matters in the ordinary course of business. Except as described in Note 10 to the consolidated financial statements included herein, the Company does not believe that any legal proceedings to which it is a party would have a material adverse impact on its business or prospects.

In accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, the Company accrues legal costs that are expected to be incurred to defend against certain litigation. Estimates of legal reserves are determined in consultation with outside counsel. The Company believes that the accounting estimate related to legal reserves is a "critical accounting estimate" because: (1) it requires management to make estimates of the ultimate legal liability to defend a case, and (2) changes in the estimated amount or timing of legal costs can significantly impact results of operations. Outside of foreseeable legal costs, if it is not currently possible to estimate the impact, if any, that the ultimate resolution of legal proceedings will have on our financial statements, no accrual is made, consistent with Statement 5.

Employee Benefit Plan Assumptions. Retirement benefits are a significant cost of doing business for the Company and represent obligations that will be settled far in the future. Retirement benefit accounting is intended to reflect the recognition of the future benefit costs over the employee's approximate service period based on the terms of the plans and the investment and funding decisions made by the Company. The accounting requires that management make assumptions regarding such variables as the return on assets, the discount rate and future health care costs. Changes in these key assumptions can have a significant impact on the projected benefit obligation and periodic benefit cost incurred by the Company.

The Company believes that the accounting estimate related to retirement benefit accounting is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about discount rates, future health care costs, and future return on assets funding the obligation; and (2) the impact of changes in actual performance versus these estimates would have on the projected benefit obligation reported on our balance sheet and the benefit cost could be material. The method of determining pension obligations requires assumptions concerning market performance. Market performance has fluctuated in the recent past and could have continued volatility in the future. In selecting these assumptions, the Company uses historical experience as well as objective indices as benchmarks, and tests the benchmarks against historical industry data on these assumptions provided by an independent actuary.

An increase in the discount rate and in the expected return on assets would reduce the reported benefit obligations and benefit costs. In contrast, if the discount rate in 2004 were 25 basis points lower, it would generate a $12.0 million increase in the projected benefit obligations and a $1.2 million increase in benefit costs. Similarly, if the expected return on assets assumption were 25 basis points lower, it would generate a $0.6 million increase in the benefit costs. Reasonable changes in the estimate of health care cost assumptions would not materially affect the benefit obligations or related benefit costs for a single year.

Effects of Inflation

The Company believes that the relatively moderate rate of inflation over the past few years has not had a significant impact on its sales or profitability.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Continued

Liquidity and Capital Resources

So long as the Company remains under the protection of chapter 11 of the Bankruptcy Code, its principal sources of liquidity are expected to be cash generated from its operations and funds available under the DIP Credit Agreement. The maximum commitment under the DIP Credit Agreement is $300 million. At May 7, 2005, borrowing availability under the DIP Credit Agreement was $140.0 million and consisted of a calculated borrowing base of $228.2 million less outstanding loans of $54.4 million, outstanding letters of credit of $28.8 million and other reserves of $5.0 million. For additional information about the DIP Credit Agreement, see "-- DIP Credit Agreement" above.

During the pendency of its chapter 11 case, the Company's principal uses of cash will be administrative expenses of the chapter 11 case, operating expenses, capital expenditures and debt service (including both interest payments under the DIP Credit Agreement and whatever payments may be made in respect of pre-petition debt in accordance with orders of the Bankruptcy Court).

There can be no assurance, however, that the Company will be able to comply with the debt covenants or that, if it fails to do so, it will be able to obtain amendments to or waivers of such covenants. Failure of the Company to comply with covenants contained in its DIP Credit Agreement, if not waived, or to adequately service debt obligations, could result in a default under the DIP Credit Agreement. Any default under the Company's DIP Credit Agreement, particularly any default that results in acceleration of indebtedness or foreclosure on collateral, could have a material adverse effect on the Company. At December 31, 2004, the Company was in compliance with its covenants under the DIP Credit Agreement.

At December 31, 2004, the Company's major contractual obligations were as follows (in millions of dollars):

	Total	2005	2006	2007	2008	2009	Later Periods
Senior Notes (1)	$1,000.0	$ 525.0	$ -	$ -	$475.0	$ -	$ -
Senior Credit Facility (2)	483.9	483.9	-	-	-	-	-
Second-Lien Facility (3)	165.0	165.0	-	-	-	-	-
DIP Credit Agreement	58.1	58.1	-	-	-	-	-
Operating Leases	42.3	13.0	12.1	6.8	4.1	3.3	3.0
Inventory Contracts	31.6	31.6	-	-	-	-	-
Pension Contributions	14.1	14.1	-	-	-	-	-
	$1,795.0	$1,290.7	$ 12.1	$ 6.8	$479.1	$ 3.3	$ 3.0

(1) Classified as Liabilities Subject to Compromise.
(2) The Senior Credit Facility matured on November 30, 2004 and will be settled as part of the chapter 11 proceedings.
(3) The Second-Lien Facility matured on February 28, 2005 and will be settled as part of the chapter 11 proceedings.

Capital expenditures in 2005 are expected to total $35 million.

Purchase orders or contracts for the purchase of certain inventory and other goods and services are not included in the table above. The Company is not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Purchase orders are based on the Company's current needs and are fulfilled by vendors within short time horizons. The Company does not have significant agreements for the purchase of inventory or other goods specifying minimum quantities or set prices that exceed expected requirements other than included in the above table.

Adequacy of Capital Resources

As a result of the uncertainty surrounding the Company's current circumstances, it is difficult to predict the Company's actual liquidity needs and sources at this time. However, based on current and anticipated levels of operations and efforts to effectively manage working capital, the Company anticipates that its cash flows from operations, together with cash on hand, cash generated from asset sales, and amounts available under the DIP Credit Agreement, will be adequate to meet its anticipated cash requirements during the pendency of the chapter 11 case.

Adequacy of Capital Resources--Continued

In the event that cash flows and available borrowings under the DIP Credit Agreement are not sufficient to meet future cash requirements, the Company may be required to reduce planned capital expenditures, sell assets or seek additional financing. The Company can provide no assurances that reductions in planned capital expenditures or proceeds from asset sales would be sufficient to cover shortfalls in available cash or that additional financing would be available or, if available, offered on acceptable terms.

As a result of the chapter 11 case, the Company's access to additional financing is, and for the foreseeable future will likely continue to be, very limited. The Company's long-term liquidity requirements and the adequacy of the Company's capital resources are difficult to predict at this time, and ultimately cannot be determined until a plan of reorganization has been developed and confirmed by the Bankruptcy Court in connection with the chapter 11 case.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (the "FASB") released Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 requires that all primary beneficiaries of Variable Interest Entities ("VIE") consolidate that entity. FIN 46 was effective immediately for VIEs created after January 31, 2003, and to VIEs to which an enterprise obtains an interest after that date. It applied in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise held a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities were required to apply the provisions of the interpretation in financial statements for periods ending after March 14, 2004. The Company has not identified any interests in special purpose entities applicable to the provisions of this statement in applying the provisions of FIN 46R in its financial statements.

On October 13, 2004, the FASB concluded that SFAS No. 123R, *Share-Based Payment*, as subsequently amended, would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, and would be effective for public companies (except small business issuers as defined in SEC Regulation S-B) for annual periods beginning after June 15, 2005. A calendar-year company therefore would be required to apply SFAS No. 123R beginning January 1, 2006 and could choose to apply SFAS No. 123 retroactively. The cumulative effect of adoption, if any, would be measured and recognized on January 1, 2006. The Company is currently evaluating the impact of this standard.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to various market risks, including changes in certain commodity prices and interest rates. These exposures primarily relate to the acquisition of raw materials and changes in interest rates.

Commodities Risk. The Company selectively uses commodity futures contracts, forward purchase commodity contracts and option contracts primarily to manage its exposure to cotton commodity price risk. The Company does not hold or issue derivative instruments for trading purposes.

At December 31, 2004, the Company, in its normal course of business, had entered into various commodity futures contracts and forward purchase commodity contracts. Based on year-end forward cotton prices, the Company's futures contracts and forward purchase contracts at December 31, 2004 (which covered a portion of its 2005 needs) had a net deferred loss of approximately $1.2 million.

Based on a sensitivity analysis for commodities that assumes a decrease of 10% in such commodity prices, the hypothetical net deferred loss for the combined commodity positions at December 31, 2004, is estimated to be approximately $4.2 million. Actual commodity price volatility is dependent on many varied factors impacting supply and demand that are impossible to forecast. Therefore, actual changes in fair value over time could differ substantially from the hypothetical change disclosed above.

Interest Rate Risk. At December 31, 2004, the Company's floating interest rate debt outstanding was $707.0 million (of which $165.0 million was the Second-Lien Facility). A 100 basis point increase in market rates would increase interest expense and decrease income before income taxes by approximately $7.1 million for the year ended December 31, 2004. The amount was determined by calculating the effect of the hypothetical interest rate change on the Company's floating interest rate debt.

Item 8. Financial Statements and Supplementary Data

WESTPOINT STEVENS INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	$ 10,632	
Accounts receivable, net (less allowances of $14,045)	210,497	
Inventories, net	312,649	
Prepaid expenses and other current assets	22,221	
Total current assets	555,999	
Property, Plant and Equipment		
Land	6,747	
Buildings and improvements	335,808	
Machinery and equipment	963,586	
Leasehold improvements	11,226	
	1,317,367	
Less accumulated depreciation and amortization	(797,961)	
Net property, plant and equipment	519,406	
Other Assets		
Deferred financing fees, net (less accumulated amortization of $38,506)	1,353	
Other assets	394	
Total other assets	1,747	
	$ 1,077,152	

See accompanying notes.

WESTPOINT STEVENS INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2004	December 31, 2003
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Senior Credit Facility	$ 483,897	
Second-Lien Facility	165,000	
DIP Credit Agreement	58,149	
Accrued interest payable	507	
Accounts payable	50,038	
Accrued employee compensation	53,954	
Pension liabilities	14,128	
Accrued customer incentives	24,737	
Other accrued liabilities	38,235	
Total current liabilities	888,645	
Noncurrent Liabilities		
Deferred income taxes	5,190	
Pension liabilities	112,137	
Other liabilities	36,047	
Total noncurrent liabilities	153,374	
Liabilities Subject to Compromise	1,089,491	
Stockholders' Equity (Deficit)		
Common Stock and capital in excess of par value:		
Common Stock, $.01 par value; 200,000,000 shares authorized; 71,099,649 shares issued	457,966	
Accumulated deficit	(977,089)	
Treasury stock; 21,202,240 at cost	(416,133)	
Accumulated other comprehensive income (loss)	(119,102)	
Total stockholders' equity (deficit)	(1,054,358)	
	$ 1,077,152	

See accompanying notes.

WESTPOINT STEVENS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31, 2004	2003	2002
Net sales	$ 1,618,684		
Cost of goods sold	1,395,026		
Gross earnings	223,658		
Selling, general and administrative expenses	209,634		
Restructuring and impairment charge	52,525		
Fixed asset impairment charge	7,929		
Operating loss	(46,430)		
Interest expense (contractual interest of $157,013 for the year ended December 31, 2004)	78,263		
Other expense-net	7,826		
Chapter 11 expenses	34,605		
Loss from operations before income tax benefit	(167,124)		
Income tax benefit	(17,077)		
Net loss	$ (150,047)		
Basic and diluted net loss per common share	$ (3.01)		
Basic and diluted average common shares outstanding	49,897		

See accompanying notes.

WESTPOINT STEVENS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Common Shares	Common Stock and Capital in Excess of Par Value	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (loss)	Total
Balance, January 1, 2004	71,100	$404,399	(21,202)	$(416,133)	$(827,042)	$(110,359)	$ (949,135)
Comprehensive income (loss):							
Net loss	-	-	-	-	(150,047)	-	(150,047)
Minimum pension liability adjustment net of tax of $4,209	-	-	-	-	-	(7,482)	(7,482)
Foreign currency translation adjustment	-	-	-	-	-	563	563
Cash flow hedges:							
Net derivative losses, net of tax of $1,027	-	-	-	-	-	(1,824)	(1,824)
Comprehensive income (loss)							(158,790)
Net operating loss benefit	-	53,567	-	-	-	-	53,567
Balance, December 31, 2004	71,100	$457,966	(21,202)	$(416,133)	$(977,089)	$(119,102)	$(1,054,358)

See accompanying notes.

WESTPOINT STEVENS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net loss	$ (150,047)		
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Depreciation and other amortization	95,765		
Deferred income taxes	(17,016)		
Non-cash component of restructuring and impairment charge	9,421		
Fixed asset impairment charge	7,929		
Changes in assets and liabilities:			
Accounts receivable	33,010		
Inventories	55,971		
Prepaid expenses and other current assets	1,772		
Accrued interest payable	395		
Accounts payable and other accrued liabilities	20,321		
Other-net	(3,202)		
Total adjustments	204,366		
Net cash provided by operating activities	54,319		
Cash flows from investing activities:			
Capital expenditures	(17,748)		
Net proceeds from sale of assets	8,061		
Net cash used for investing activities	(9,687)		
Cash flows from financing activities:			
Senior Credit Facility:			
Borrowings	-		
Repayments	(6,792)		
DIP Credit Agreement:			
Borrowings	760,338		
Repayments	(791,206)		
Net cash used for financing activities	(37,660)		
Net increase in cash and cash equivalents	6,972		
Cash and cash equivalents at beginning of period	3,660		
Cash and cash equivalents at end of period	$ 10,632		

See accompanying notes.

WESTPOINT STEVENS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business. WestPoint Stevens Inc. (the "Company") is a manufacturer and marketer of bed and bath products, including sheets, pillowcases, comforters, blankets, bedspreads, pillows, mattress pads, towels and related products. The Company conducts its operations in the consumer home fashions (bed and bath products) industry.

Basis of Presentation. The Company's consolidated financial statements are prepared on a "going concern" basis. See Note 2 Chapter 11 Case for a further discussion.

Reconciliation to GAAP. The 2004 consolidated financial statements presented in this document are unaudited and are substantially in accordance with GAAP, but differ from GAAP in regards to the recorded income tax provision. During the 2004 audit (that has not yet been finalized), it was determined that the Company’s income tax contingency reserves were excessive, and that certain of the reserves should have been released in prior periods, some dating back several years. Taking into account the Company’s overall tax situation (see Note 6. Income Taxes) and in conjunction with proposed prior period restatements of the income tax provisions, the 2004 income tax provision on a GAAP basis would be an income tax expense of $5.2 million as opposed to the indicated income tax benefit of $17.1 million. The 2004 net loss on a GAAP basis would be a loss of $172.3 million as opposed to the indicated loss of $150.0 million. Overall net deferred taxes reflected in the December 31, 2004 unaudited balance sheet are recorded at zero and would not be impacted. However, certain prior periods financial statements would be impacted by the restatement, the amounts of which have not yet been determined.

Principles of Consolidation. The consolidated financial statements of the Company include the accounts of the Company and all of its subsidiaries. All material intercompany accounts and transactions have been eliminated.

Use of Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications. Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Concentrations of Credit Risk Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and trade accounts receivable.

The Company maintains cash and cash equivalents and certain other financial instruments with various financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of entities comprising the Company's customer base, however, as of December 31, 2004, substantially all of the Company's receivables were from companies in the retail industry. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

Cash and Cash Equivalents. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. These investments are carried at cost, which approximates market value.

Inventories. Inventory costs include material, labor and factory overhead. Inventories are stated at the lower of cost or market (net realizable value). At December 31, 2004, approximately 88.0% of the Company's inventories are valued at the lower of cost or market using the "dollar value" last-in, first-out ("LIFO") method. The remaining inventories (approximately $37.6 million at December 31, 2004) are valued at the lower of cost or market using the first-in, first-out method.

1. Summary of Significant Accounting Policies--Continued

Inventories—Continued. Inventories consisted of the following (in thousands of dollars):

	December 31, 2004	December 31, 2003
Finished goods	$ 127,499	
Work in process	142,016	
Raw materials and supplies	43,134	
LIFO reserve	-	
	$ 312,649	

Property, Plant and Equipment. As a result of the adoption of Fresh Start reporting, as of September 30, 1992, property, plant and equipment were adjusted to their estimated fair values and historical accumulated depreciation was eliminated. Additions since September 30, 1992, are stated at cost.

Depreciation is computed over estimated useful lives using the straight-line method for financial reporting purposes and accelerated methods for income tax reporting. Depreciation expense was approximately $95.8 million in the year ended December 31, 2004. See Note 13. Impairment of Long-Lived Assets and Accelerated Depreciation Expense.

Estimated useful lives for property, plant and equipment are as follows:

Buildings and improvements	10 to 40 Years
Machinery and equipment	3 to 18 Years
Leasehold improvements	Lease Terms

Derivatives. Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statement 137 and Statement 138 requires the Company to recognize all derivative instruments on the balance sheets at fair value. These statements also establish accounting rules for hedging instruments, which depend on the nature of the hedge relationship. A fair value hedge requires that the effective portion of the change in the fair value of a derivative instrument be offset against the change in the fair value of the underlying asset, liability, or firm commitment being hedged through earnings. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in Other Comprehensive Income (OCI), a component of Stockholders' Equity (Deficit), and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings. See Note 8. Derivatives.

Income Taxes. The Company accounts for income taxes under Statement No. 109, *Accounting for Income Taxes*. Under Statement 109, deferred income taxes are provided at the enacted marginal rates on the differences between the financial statement and income tax bases of assets and liabilities. See Note 6. Income Taxes.

Pension Plans. The Company has defined benefit pension plans covering essentially all employees. The benefits are based on years of service and compensation. The Company's practice is to fund amounts that are required by the Employee Retirement Income Security Act of 1974. See Note 4. Employee Benefit Plans -- Pension Plans.

The Company also sponsors an employee savings plan covering eligible employees who elect to participate. Participants in this plan make contributions as a percent of earnings. The Company matches certain amounts of employee contributions. See Note 4. Employee Benefit Plans -- Retirement Savings Plan.

Other Employee Benefits. The Company accounts for post-retirement and post-employment benefits in accordance with Statement No. 106, *Employer's Accounting for Post Retirement Benefits Other Than Pensions* and Statement No. 112, *Employer's Accounting for Postemployment Benefits*. See Note 4. Employee Benefit Plans -- Other Post-Retirement Benefit Plans.

1. Summary of Significant Accounting Policies--Continued

Stock-Based Compensation. The Company grants stock options for a fixed number of shares in accordance with certain of its benefit plans. The Company accounts for stock option grants in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and, accordingly, recognizes no compensation expense for the stock option grants if the exercise price is equal to or more than the fair value of the shares at the date of grant. Pro forma information regarding net income and earnings per share, as calculated under the provisions of Statement No. 123, *Accounting for Stock-Based Compensation*, as amended by Statement 148, are disclosed in Note 7. Stockholders' Equity (Deficit).

Fair Value Disclosures. *Cash and cash equivalents:* The carrying amounts reported in the balance sheets for cash and cash equivalents approximate its fair value.

Accounts receivable and accounts payable: The carrying amounts reported in the balance sheets for accounts receivable and accounts payable approximate their fair value.

Long-term and short-term debt: The fair value of the Company's outstanding debt is estimated based on the quoted market prices for the same issues where available or based on estimates. The fair value of the $1,707.0 million of outstanding debt at December 31, 2004, was approximately $533.2 million.

Impairment of Long-Lived Assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company evaluates the recoverability of its long-lived assets and related goodwill by comparing estimated future undiscounted cash flows with the asset's carrying amount to determine if impairment exists. Impairment, if any, is then measured by comparing carrying value to market value or discounted cash flow. See Note 13. Impairment of Long-Lived Assets and Accelerated Depreciation Expense.

Revenue Recognition. The Company recognizes revenue when title to the goods sold passes to the buyer, which is based on contractual terms.

Customer Incentives. Incentives are provided to customers primarily for new sales programs. These incentives begin to accrue when a commitment has been made to the customer and are recorded as a reduction to sales.

Earnings Per Common Share. Basic and diluted earnings per share are calculated in accordance with Statement No. 128, *Earnings per Share*. Basic earnings per share is based on the weighted average number of common shares outstanding, and diluted earnings per share includes any dilutive effects of stock options and the Company's stock bonus plan.

Segment Information. The Company is in one business segment, the consumer home fashions business, and follows the requirements of Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

Advertising Costs. Advertising costs are expensed as incurred and were $8.6 million in 2004.

Environmental and Legal Matters. Liabilities for environmental remediation and legal indemnification and defense costs are recognized when it is probable a liability has been incurred and the amount can be reasonably estimated. The liabilities are developed based on currently available information and reflect the participation of other potentially responsible parties, depending on the parties' financial condition and probable contribution. The accruals are recorded at undiscounted amounts and are reflected as liabilities on the accompanying consolidated balance sheets.

Workers' Compensation Reserves. During 2004, the Company reviewed its workers' compensation reserves in conjunction with information provided by its outside actuaries, and as a result of that review reduced its workers' compensation reserves by $8.1 million, which is reflected as a reduction of cost of goods sold in the accompanying consolidated statements of operations. The Company will continue to evaluate its estimates of workers' compensation liabilities in consultation with its outside actuaries.

1. Summary of Significant Accounting Policies--Continued

New Accounting Pronouncements. In January 2003, the Financial Accounting Standards Board (the "FASB") released Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). FIN 46 requires that all primary beneficiaries of Variable Interest Entities ("VIE") consolidate that entity. FIN 46 was effective immediately for VIEs created after January 31, 2003, and to VIEs to which an enterprise obtains an interest after that date. It applied in the first fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise held a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities were required to apply the provisions of the interpretation in financial statements for periods ending after March 14, 2004. The Company has not identified any interests in special purpose entities applicable to the provisions of this statement in applying the provisions of FIN 46R in its financial statements.

On October 13, 2004, the FASB concluded that SFAS No. 123R, *Share-Based Payment*, as subsequently amended, would require all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value, and would be effective for public companies (except small business issuers as defined in SEC Regulation S-B) for annual periods beginning after June 15, 2005. A calendar-year company therefore would be required to apply SFAS No. 123R beginning January 1, 2006 and could choose to apply SFAS No. 123 retroactively. The cumulative effect of adoption, if any, would be measured and recognized on January 1, 2006. The Company is currently evaluating the impact of this standard.

2. Chapter 11 Filing

On June 1, 2003 (the "Petition Date"), the Company and several of its subsidiaries (together with the Company, the "Debtors") each commenced a voluntary case under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Debtors are authorized to operate their businesses and manage their properties as debtors in possession pursuant to section 1107(a) and 1108 of the Bankruptcy Code. A brief chronology of the circumstances that led to such filing is set forth below.

Despite the restructuring initiatives which the Company undertook in 2000 through 2002, during 2003 the Company continued to experience financial difficulty related primarily to restrictive covenants under its Senior Credit Facility and its debt structure. The Company therefore entered into negotiations with its Senior Credit Facility lenders to amend the Senior Credit Facility to permit certain restructuring, impairment and other charges and to revise certain financial ratios and minimum EBITDA covenants in its Senior Credit Facility. The Company and such lenders were unable to agree to amend the Senior Credit Facility and the Company continued to experience financial difficulties which led to a default under its Senior Credit Facility and Second-Lien Facility. Effective March 31, 2003, the Senior Credit Facility lenders and Second-Lien Facility lenders agreed to refrain from exercising any rights or remedies with respect to the Company's failure to comply with financial and other covenants until June 10, 2003. As the June 10 deadline approached, the Company's Board of Directors determined that, in order to be able to operate successfully in today's market environment and compete with increasing foreign competition, it would be necessary for the Company to reduce its debt burden and de-lever its balance sheet. Thus, on May 16, 2003, the Board of Directors approved the retention of an independent financial advisor to evaluate alternatives aimed at reducing the existing debt structure and strengthening the balance sheet. After negotiations with its Senior Lenders regarding various alternatives, the Company concluded it would be in the best interests of its creditors to effect a consensual restructuring under chapter 11 of the Bankruptcy Code and filed its chapter 11 petition on June 1, 2003.

2. Chapter 11 Filing--Continued

On or about the Petition Date, the Company announced that it had reached an agreement in principle with the holders of approximately 52% of the aggregate principal amount of its Senior Notes on the terms of a financial restructuring to be implemented through the chapter 11 process. The agreement in principle was subject to numerous conditions and further agreements, including the entry of an order confirming the plan of reorganization contemplated by the proposal as required by the Bankruptcy Code. On October 17, 2003, the Company announced that it had determined not to implement the previously announced agreement in principle. Instead, the Company stated that it intended to negotiate new terms for a chapter 11 plan of reorganization with all of its major creditor constituencies. The Company filed a plan of reorganization on January 20, 2005. The Company currently intends to sell substantially all of its assets, subject to either Section 363 of the Bankruptcy Code or a confirmation of a new chapter 11 plan.

On June 2, 2003, the Bankruptcy Court entered a number of orders enabling the Company to continue regular operations throughout the reorganization proceeding. These orders authorized, among other things, normal payment of employee salaries, wages and benefits; continued participation in workers' compensation insurance programs; payment to vendors for post-petition delivery of goods and services; payment of certain pre-petition obligations to customers; and continued payment of utilities. The Bankruptcy Court also approved, under interim order, access to $175 million in debtor in possession financing and subsequently approved, under final order, access to $300 million of debtor in possession financing for use by the Company, pursuant to a Post-Petition Credit Agreement, dated as of June 2, 2003, among WestPoint Stevens Inc. and certain of its subsidiaries, the financial institutions named therein and Bank of America, N.A. and Wachovia Bank, National Association (the "DIP Credit Agreement").

The DIP Credit Agreement consists of revolving credit loans of up to $300 million (with a sublimit of $75 million for letters of credit) with an initial term of one year and an initial maturity date of June 2, 2004. At its option, the Company may extend the term for up to two successive periods of six months each. On April 28, 2004 and November 1, 2004, the Company exercised its options to extend the DIP Credit Agreement for additional six month periods, revising the maturity date to June 2, 2005. In March 2005, the Company initiated discussions with its DIP lenders to extend the maturity date of the DIP Credit Agreement beyond June 2, 2005, and on May 17, 2005 the Bankruptcy Court approved an amendment to the DIP Credit Agreement extending the maturity date to the earliest to occur of December 2, 2005 or the consummation of a sale, pursuant to Section 363 of the Bankruptcy Code or pursuant to a confirmed plan of reorganization or liquidation pursuant to chapter 11 of the Bankruptcy Code.

Initial advances under the DIP Credit Agreement bore interest at a fluctuating rate per annum equal to LIBOR plus a margin of 2.75% or, at the Company's option, prime plus a margin of 0.75%. Each margin is subject to quarterly adjustments, commencing November 1, 2003, pursuant to a pricing matrix, based on average availability, having a range of 2.25% to 3.00% for LIBOR based loans and 0.25% to 1.00% for prime-based loans. The DIP Credit Agreement also has an unused line fee of 0.625% per annum, subject to quarterly adjustments as above having a range of 0.375% to 0.75%. Effective November 1, 2003, as a result of average availability, interest rates under the DIP Credit Agreement decreased to LIBOR plus 2.50% or, at the Company's option, prime plus 0.50% and the unused line fee decreased to 0.50%. Effective February 1, 2004, as a result of average availability, interest rates under the DIP Credit Agreement increased to LIBOR plus 2.75% or, at the Company's option, prime plus 0.75% and the unused line fee increased to 0.625%. Effective February 1, 2005, as a result of average availability, interest rates under the DIP Credit Agreement decreased to LIBOR plus 2.50% or, at the Company's option, prime plus 0.50% and the unused line fee decreased to 0.50%.

The DIP Credit Agreement contains a number of covenants, including among others, affirmative and negative covenants with respect to certain financial tests and other indebtedness, as well as restrictions against the declaration or payment of dividends, the making of certain intercompany advances and the disposition of assets without consent. The DIP Credit Agreement also contains Events of Default (as defined in the DIP Credit Agreement) including among others, a failure to pay the principal and interest of the obligations when due, default with respect to any Debt (as defined in the DIP Credit Agreement) and a failure by the Company to comply with any provisions of the Financing Orders (as defined in the DIP Credit Agreement).

2. Chapter 11 Filing--Continued

During the third quarter of 2003, the Company's DIP Credit Agreement was amended primarily to modify the minimum EBITDA covenant, add a minimum availability covenant, permit certain restructuring, impairment and other charges and modify other miscellaneous provisions. During the second quarter of 2004, the Company's DIP Credit Agreement was amended to clarify certain asset sale provisions, and during the third quarter of 2004, the DIP Credit Agreement was amended primarily to modify the minimum EBITDA and minimum availability covenants to permit certain inventory reduction plans. During the fourth quarter of 2004, the Company's DIP Credit Agreement was amended primarily to permit certain restructuring, impairment and other charges and modify the minimum EBITDA and minimum availability covenants. During the second quarter of 2005, the Company's DIP Credit Agreement was amended primarily to modify certain miscellaneous provisions related to audited financial statements and to extend the maturity date beyond the originally stated maturity date including extension options. At December 31, 2004, the Company was in compliance with its covenants under the DIP Agreement.

There can be no assurance, however, that the Company will be able to comply with the debt covenants or that, if it fails to do so, it will be able to obtain amendments to or waivers of such covenants. Failure of the Company to comply with covenants contained in its DIP Credit Agreement, if not waived, or to adequately service debt obligations, could result in a default under the DIP Credit Agreement. Any default under the Company's DIP Credit Agreement, particularly any default that results in acceleration of indebtedness or foreclosure on collateral, could have a material adverse effect on the Company.

The Debtors are currently operating their businesses as debtors in possession pursuant to the Bankruptcy Code. Pre-bankruptcy obligations of the Debtors, including obligations under debt instruments, generally may not be enforced against the Debtors, and any actions to collect such indebtedness are automatically stayed, unless relief from the automatic stay is granted by the Bankruptcy Court. The rights of and ultimate payments by the Company under pre-bankruptcy obligations may be substantially altered. This could result in claims being liquidated in the chapter 11 case at less (and possibly substantially less) than 100% of their face value. The Debtors cannot presently determine or reasonably estimate the ultimate liability that may result from rejecting contracts or leases or from the filing of claims for any rejected contracts or leases, and no provisions have yet been made for these items. The amount of the claims to be filed by the creditors could be significantly different than the amount of the liabilities recorded by the Company.

Since the Petition Date, the Debtors have conducted business in the ordinary course. Management is continuing the process of stabilizing the business of the Debtors and evaluating their operations as part of the development of a chapter 11 plan of reorganization. The Debtors currently intend to sell substantially all of their assets, subject to either Section 363 of the Bankruptcy Code or confirmation of a chapter 11 plan. The Debtors intend to seek the requisite acceptance of such plan by security holders and confirmation of the plan by the Bankruptcy Court, all in accordance with the applicable provisions of the Bankruptcy Code. During the pendency of the chapter 11 case, the Debtors may, with Bankruptcy Court approval, sell assets and settle liabilities, including for amounts other than those reflected in the financial statements. The administrative and reorganization expenses resulting from the chapter 11 case will unfavorably affect the Debtors' results of operations. Future results of operations may also be adversely affected by other factors related to the chapter 11 case.

On August 28, 2003, one of the Company's foreign subsidiaries, WestPoint Stevens (Europe) Ltd., commenced an insolvency proceeding in the United Kingdom and is in the process of being liquidated, and inactive subsidiaries have applied to be dissolved. The losses associated with the closure of the foreign subsidiary are estimated to total approximately $5.3 million consisting of inventory writedowns of $3.9 million and accounts receivable writedowns for claims of $1.4 million. These charges are reflected in restructuring, impairment and other charges as discussed in Note 12.

2. Chapter 11 Filing--Continued

Basis of Presentation

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States applicable on a going concern basis. Except as otherwise disclosed, these principles assume that assets will be realized and liabilities will be discharged in the ordinary course of business. The Company is currently operating as a debtor in possession under chapter 11 of the Bankruptcy Code, and its continuation as a going concern is contingent upon, among other things, confirmation by the Bankruptcy Court of a chapter 11 plan of reorganization and its ability to comply with the DIP Credit Agreement, return to profitability, generate sufficient cash flows from operations and obtain financing sources to meet future obligations. There is no assurance that the Company will be able to achieve any of these results. The Company's consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of these uncertainties.

The Company's consolidated financial statements included elsewhere in this report are presented in accordance with AICPA Statement of Position 90-7 ("Financial Reporting by Entities in Reorganization Under the Bankruptcy Code") ("SOP 90-7"). In the chapter 11 case, substantially all unsecured liabilities as of the Petition Date are subject to compromise or other treatment under a plan of reorganization which must be confirmed by the Bankruptcy Court after submission to any required vote by affected parties. For financial reporting purposes, the categories of liabilities and obligations whose treatment and satisfaction are dependent on the outcome of the chapter 11 case and classified as Liabilities Subject to Compromise in the consolidated balance sheet under SOP 90-7 are identified below (in thousands):

	December 31,	
	2004	**2003**
Senior Notes due 2005 and 2008:		
Senior Notes outstanding	$1,000,000	
Related accrued interest	36,313	
Related deferred financing fees (less accumulated amortization of $16,569)	(4,647)	
Total	1,031,666	
Accounts payable	30,669	
Pension liabilities	8,394	
Other accrued liabilities	18,762	
Total	$1,089,491	

The ultimate amount of and settlement terms for the Company's pre-bankruptcy liabilities are subject to the ultimate outcome of its chapter 11 case and, accordingly, are not presently determinable. Pursuant to SOP 90-7, professional fees associated with the chapter 11 case are expensed as incurred and reported as reorganization costs (chapter 11 expenses). Also, interest expense will be reported only to the extent that it will be paid during the pendency of the chapter 11 case or that it is probable that it will be an allowed claim. During 2004, the Company recognized charges of $34.6 million for chapter 11 expenses consisting of $12.4 million for performance bonuses under a court approved Key Employee Retention Program, $4.0 million related to the amortization of fees associated with the DIP Credit Agreement, $0.5 million in severance associated with the resignation of the Company's former Chairman and Chief Executive Officer and $17.7 million related to fees paid to professionals retained to assist with the chapter 11 case. During 2003, the Company recognized charges of $31.5 million for chapter 11 expenses, consisting of $4.9 million related to the early termination of the Company's Trade Receivables Program, $1.3 million in severance associated with the resignation of the Company's former Chairman and Chief Executive Officer, $7.6 million for performance bonuses under a court approved Key Employee Retention Program, $3.6 million related to the amortization of fees associated with the DIP Credit Agreement and $14.1 million related to fees payable to professionals retained to assist with the chapter 11 case.

2. Chapter 11 Filing--Continued

Basis of Presentation--Continued

Assets of the Company's subsidiaries currently excluded from the bankruptcy case total $10.6 million as of December 31, 2004, or 1.0% of the Company's consolidated assets. Revenues of the subsidiaries totaled $26.5 million for the year ended December 31, 2004, or 1.6% of the Company's consolidated revenues.

3. Indebtedness and Financial Arrangements

Indebtedness is as follows (in thousands of dollars):

	December 31, 2004	December 31, 2003
Short-term indebtedness		
Senior Credit Facility	$ 483,897	
DIP Credit Agreement	58,149	
Second-Lien Facility	165,000	
	$ 707,046	
Short-term indebtedness classified as Liabilities Subject to Compromise		
7-7/8% Senior Notes due 2005	$ 525,000	
7-7/8% Senior Notes due 2008	475,000	
	$ 1,000,000	

The DIP Credit Agreement consists of revolving credit loans of up to $300 million (with a sublimit of $75 million for letters of credit) with an initial term of one year and an initial maturity date of June 2, 2004. At its option, the Company may extend the term for up to two successive periods of six months each. On April 28, 2004 and November 1, 2004, the Company exercised its options to extend the DIP Credit Agreement for additional six month periods, revising the maturity date to June 2, 2005. In March 2005, the Company initiated discussions with its DIP lenders to extend the maturity date of the DIP Credit Agreement beyond June 2, 2005, and on May 17, 2005 the Bankruptcy Court approved an amendment to the DIP Credit Agreement extending the maturity date to the earliest to occur of December 2, 2005 or the consummation of a sale, pursuant to Section 363 of the Bankruptcy Code or pursuant to a confirmed plan of reorganization or liquidation pursuant to chapter 11 of the Bankruptcy Code. At December 31, 2004, borrowing availability under the DIP Credit Agreement was $164.0 million and consisted of a calculated borrowing base of $259.5 million less outstanding loans of $58.1 million, outstanding letters of credit of $32.3 million and other reserves of $5.0 million. (See Note 2 where the DIP Credit Agreement is discussed further.)

During the third quarter of 2003, the Company's DIP Credit Agreement was amended primarily to modify the minimum EBITDA covenant, add a minimum availability covenant, permit certain restructuring, impairment and other charges and modify other miscellaneous provisions. During the second quarter of 2004, the Company's DIP Credit Agreement was amended to clarify certain asset sale provisions, and during the third quarter of 2004, the DIP Credit Agreement was amended primarily to modify the minimum EBITDA and minimum availability covenants to permit certain inventory reduction plans. During the fourth quarter of 2004, the Company's DIP Credit Agreement was amended primarily to permit certain restructuring, impairment and other charges and modify the minimum EBITDA and minimum availability covenants. During the second quarter of 2005, the Company's DIP Credit Agreement was amended primarily to modify certain miscellaneous provisions related to audited financial statements and to extend the maturity date beyond the originally stated maturity date including extension options. At December 31, 2004, the Company was in compliance with its covenants under the DIP Agreement.

3. Indebtedness and Financial Arrangements--Continued

At December 31, 2004, the Company's Senior Credit Facility with certain lenders (collectively, the "Banks") consisted of a $592.8 million revolving credit facility ("Revolver") subject to interim facility limitations, with a Revolver maturity date of November 30, 2004. Effective with the chapter 11 filing, additional borrowings under the Senior Credit Facility are no longer available to the Company. During 2003 the revolver commitment decreased $75.0 million as a result of scheduled commitment reductions. During 2004, the revolver commitment decreased $17.5 million as a result of a scheduled commitment reduction, and the revolver commitment and outstanding loans decreased $6.8 million as a result of certain proceeds from asset dispositions, which were used to reduce the loan balance.

Effective March 31, 2003, the Senior Credit Facility was amended primarily to provide for an interim facility limitation and to add an unused commitment fee. At the option of the Company and effective with the last amendment to the Senior Credit Facility, interest under the Senior Credit Facility was payable monthly, either at the prime rate plus 5.25% or LIBOR plus 7.00%, compared to prime rate plus 2.75%, or LIBOR plus 4.50% in effect at December 31, 2002. Effective with the chapter 11 filing, loans under the Senior Credit Facility are no longer available to the Company. Prior to the chapter 11 filing, the Company was obligated to pay a facility fee in an amount equal to 0.50% of each Bank's commitment under the Revolver, and an unused commitment fee in an amount equal to 1.00% of the difference between the revolver commitment and the daily outstanding loans and letters of credit. Effective with the chapter 11 filing, the Company is no longer obligated to pay a facility fee or an unused commitment fee for the Senior Credit Facility. The loans under the Senior Credit Facility are secured by the pledge of all the stock of the Company's material subsidiaries and a first priority lien on substantially all of the assets of the Company.

The Company has a $165.0 million Second-Lien Senior Credit Facility ("Second-Lien Facility") with a maturity date of February 28, 2005. Effective with the Company’s chapter 11 filing, interest under the Second-Lien Facility is payable monthly, as opposed to quarterly prior to the filing, at an interest rate of prime plus 8% increasing each quarter after June 30, 2002, by .375% but in no event less than 15%. Loans under the Second-Lien Facility are secured by a second priority lien on the assets securing the existing Senior Credit Facility.

The 7-7/8% Senior Notes due 2005 and 7-7/8% Senior Notes due 2008 (together, the "Senior Notes") are general unsecured obligations of the Company and rank pari passu in right of payment with all existing or future unsecured and unsubordinated indebtedness of the Company and senior in right of payment to all subordinated indebtedness of the Company. The Senior Notes bear interest at the rate of 7-7/8% per annum, and prior to the Company’s chapter 11 filing were payable semi-annually on June 15 and December 15 of each year. Effective with the Company’s chapter 11 filing, interest on the Senior Notes is no longer paid or accrued. The Senior Notes are redeemable, in whole or in part, at any time at the option of the Company at 100% of the principal amount thereof plus the Make-Whole Premium (as defined) plus accrued and unpaid interest, if any, to the date of purchase. In addition, in the event of a Change of Control (as defined), the Company will be required to make an offer to purchase the notes at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. Neither the redemption option nor the Change of Control provisions are relevant in the Company's chapter 11 case.

The Company's credit agreements contain a number of customary covenants including, among others, restrictions on the incurrence of indebtedness, transactions with affiliates, and certain asset dispositions as well as limitations on restricted debt and equity payments and capital expenditures. Certain provisions require the Company to maintain certain financial ratios, a minimum interest coverage ratio, a minimum debt to EBITDA ratio, a minimum EBITDA, a minimum consolidated net worth (as defined) and a minimum availability. The Company can no longer make restricted debt and equity payments. At December 31, 2004, the Company was in compliance with its covenants under the DIP Credit Agreement but was not in compliance with the covenants under its various other credit agreements, primarily as a result of the chapter 11 filing and failure to meet certain financial covenants.

3. Indebtedness and Financial Arrangements--Continued

At March 31, 2003, and prior to the petition date, the Company was not in compliance with certain of its covenants under the Senior Credit Facility and Second-Lien Facility during which time the Company engaged in active discussions with its senior lenders to obtain an amendment or waiver of such non-compliance (See Note 2 where the chronology of the circumstances causing the Company to file voluntary petitions for reorganization under chapter 11 of the U.S. Bankruptcy Code is discussed). At December 31, 2004, the Company classified all of its outstanding debt under its Senior Credit Facility, Second-Lien Facility and Senior Notes as current liabilities as a result of the potential for the acceleration of the loans outstanding under the related agreements.

As of December 31, 2004, the maturity of long-term debt excluding the DIP Credit Agreement was as follows: $1,173.9 million in 2005 (including the Senior Credit Facility that matured on November 30, 2004), zero in 2006 and 2007, and $475.0 million in 2008.

4. Employee Benefit Plans

Pension Plans

The Company has defined benefit pension plans covering essentially all employees. Benefits are based on years of service and compensation, and the Company's practice is to fund amounts that are required by the Employee Retirement Income Security Act of 1974. Effective January 1, 2005 and as a result of the Company's financial restructuring during bankruptcy, the Company's pension plans were amended to cease all future benefit accruals. The Company uses December 31 as the measurement date of its defined benefit pension plans.

The following tables set forth data for the Company's pension plans and amounts recognized in the accompanying Consolidated Balance Sheet at December 31, 2004 (in thousands of dollars):

	Year Ended December 31, 2004	2003
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 381,773	
Service cost	9,849	
Interest cost	23,004	
Actuarial losses	17,318	
Benefit payments	(30,010)	
Curtailments	(1,906)	
Projected benefit obligation at end of year	$ 400,028	

	Year Ended December 31, 2004	2003
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 251,135	
Actual return on plan assets	24,669	
Employer contributions	19,742	
Benefit payments	(30,010)	
Fair value of plan assets at end of year	$ 265,536	

4. Employee Benefit Plans--Continued

Pension Plans--Continued

	December 31, 2004	December 31, 2003
Funded status:		
Projected benefit obligation	$ (400,028)	
Fair value of assets	265,536	
Funded status	(134,492)	
Unrecognized amounts:		
Prior service cost	-	
Net actuarial losses	170,827	
Total unrecognized	170,827	
Prepaid pension cost at year-end	$ 36,335	
Amounts recognized in the Consolidated Balance Sheets:		
Accrued liability (Includes $8,394 classified as Liabilities Subject to Compromise)	$ (134,659)	
Intangible asset	52	
Accumulated other comprehensive income	170,942	
Net amount recognized	$ 36,335	

The accumulated benefit obligations and the fair value of assets for pension plans with accumulated benefit obligations in excess of plan assets were $400.0 million and $265.5 million, respectively, as of December 31, 2004.

The following assumptions were used for the pension plans to determine the projected benefit obligation and the net periodic pension cost for the fiscal year:

	December 31, 2004	December 31, 2003
Weighted average assumptions as of December 31:		
Discount rate	6.00%	
Expected return on plan assets	8.75%	
Rate of compensation increase	3.50%	

In determining its expected long-term return on plan assets, the Company considered historical experience, its asset allocation, expected long-term rates of return for each major asset class and an assumed long-term inflation rate. The expected long-term return on plan assets is adjusted when there are fundamental changes in expected returns on the plan investments.

4. Employee Benefit Plans--Continued

Pension Plans--Continued

	Year Ended December 31, 2004	2003	2002
Components of net periodic pension cost (benefit):			
Service cost	$ 9,849		
Interest cost	23,004		
Expected return on plan assets	(21,785)		
Net amortization	11,109		
Net periodic pension expense	22,177		
One-time credit due to curtailment	(9,634)		
Total periodic pension expense	$ 12,543		

Plan assets are primarily invested in United States Government and corporate debt securities and equity securities. The percentage of fair value to total assets by asset category for the Company's pension plans as of the measurement date are as follows:

	December 31, 2004	2003
Asset category:		
Equity funds	55.0%	
Fixed income funds	32.6%	
Alternative investments	7.7%	
Cash	4.7%	
Total	100.0%	

Based on actuarial information available at December 31, 2004, the Company estimates that contributions to its pension plans in 2005 will total approximately $14.1 million, reflecting both quarterly and annually required contributions.

The Company's investment strategy for its pension plans is to obtain an optimum rate of investment return on the total investment portfolio consistent with the assumption of a reasonable level of risk. To achieve these investment objectives, assets are invested among asset classes and investment management styles to produce a prudent level of diversification and investment return over long-term time periods. Cash balances are expected to arise from residual uninvested funds and from liquidity requirements to fund benefits within a short period of time. Certain plan obligations accrued prior to 1985 are secured under a participating annuity contract.

Target allocations for 2005 are 52% equity funds, 40% fixed income funds and 8% alternative investments. The target asset allocation has been selected as the plan's long-term strategy asset allocation based on a strategic asset-liability study, which evaluated the plan's liability structure, expected cash flows and funded status under a variety of capital market environments.

Assets are managed by qualified investment managers on a discretionary basis, but subject to risk management policies set forth by the Company. Risk management policies include supervision and monitoring of investment managers through the use of investment guidelines and restrictions and performance measurement standards. The Company also applies a disciplined rebalancing policy to control risk. The use of leverage is prohibited. Derivatives shall not be used for speculative purposes and no leverage shall be introduced through the use of derivatives.

4. Employee Benefit Plans--Continued

Retirement Savings Plan

The Company matches 50% of each employee's before-tax contributions up to 2% of the employee's compensation. Company contributions could be made either in cash or in shares of Common Stock of the Company. Effective with the bankruptcy filing, contributions are made solely in cash. During 2004, the Company charged $1.8 million to expense in connection with the Retirement Savings Plan.

Other Post-Retirement Benefit Plans

In addition to sponsoring defined benefit pension plans, the Company sponsors various defined benefit post-retirement plans that provide health care and life insurance benefits to certain current and future retirees. All such post-retirement benefit plans are unfunded. The Company uses December 31 as the measurement date of its defined benefit post-retirement plans. The following table presents the status of post-retirement plans (in thousands of dollars):

	December 31, 2004	December 31, 2003
Accumulated post-retirement benefit obligation at beginning of year	$ 12,409	
Interest cost	721	
Actuarial losses	764	
Benefit payments	(2,034)	
Accumulated post-retirement benefit obligation at end of year	$ 11,860	
Underfunded status	$ (11,860)	
Unrecognized net gains	(3,183)	
Accrued benefit cost	$ (15,043)	

Net periodic post-retirement benefit plans expense is not material for the year ended December 31, 2004.

As of December 31, 2004, the actuarial assumptions include a discount rate of 6.0% and a medical care trend rate of 9.5% for 2005, grading down to 6.0% by 2012. These trend rates reflect the Company's prior experience and management's expectation of future rates. Changing the assumed health care cost trend rates by one percentage point in each year would change the accumulated post-retirement benefit plans obligations as of December 31, 2004, by approximately $0.4 million, and the aggregate service and interest cost components of net periodic post-retirement benefit cost for the year ended December 31, 2004, by an immaterial amount.

5. Deferred Financing Fees

Amendment fees and transaction fees related to the Company’s various credit agreements are capitalized in the period incurred and amortized over the remaining term of the facility. Included in Other expense-net in the accompanying Consolidated Statements of Operations for each of the year ended December 31, 2004, is the amortization of deferred financing fees of $12.5 million, related to the Company’s credit facilities other than the DIP Credit Agreement. Deferred financing fees related to the DIP Credit Agreement are included in chapter 11 expenses and totaled $4.0 million for the year ended December 31, 2004.

WESTPOINT STEVENS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

6. Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109; accordingly, deferred income taxes are provided at the enacted marginal rates on the difference between the financial statement and income tax bases of assets and liabilities. Deferred income tax provisions or benefits are based on the change in the deferred tax assets and liabilities from period to period. (See Note 1. Summary of Significant Accounting Policies – Reconciliation to GAAP.)

The total provision (benefit) for income taxes consisted of the following (in thousands of dollars):

	Year Ended December 31,		
	2004	**2003**	**2002**
Current			
Federal	$ -		
State	(43)		
Foreign	-		
Deferred			
Federal	(13,545)		
State	(3,980)		
Foreign	491		
	$ (17,077)		

Income tax expense (benefit) differs from the statutory federal income tax rate of 35% for the following reasons (in thousands of dollars):

	Year Ended December 31,		
	2004	**2003**	**2002**
Income tax benefit at statutory rate	$ (58,493)		
State income taxes (net of effect of federal income taxes)	(2,615)		
Bankruptcy 11 expenses	6,195		
Taxes provided in prior years	(27,164)		
Valuation allowance	63,879		
Other-net	1,121		
Income tax benefit	$ (17,077)		$

6. Income Taxes--Continued

Components of the net deferred income tax liability are as follows (in thousands of dollars):

	December 31, 2004	2003
Deferred tax liabilities:		
Basis differences resulting from reorganization	$ (62,656)	
Basis differences resulting from fixed assets	(49,674)	
Income taxes related to prior years, including interest	(19,089)	
Nondeductible expenses	(28,087)	
Deferred tax assets:		
Reserves for litigation, environmental, employee benefits and other	90,042	
Net operating loss carryforward	100,301	
Other	33,042	
Valuation allowance	(63,879)	
Net deferred income tax liability	$ -	
Current deferred tax asset (included in other current assets)	$ 5,190	
Long-term deferred tax liability	(5,190)	
Net deferred income tax liability	$ -	

At December 31, 2004, the Company has estimated net operating loss carryforwards ("NOLs") of approximately $454.9 million available to reduce future federal taxable income, of which approximately $168.3 million expires after 2006-2008 and approximately $286.6 million expires after 2020-2024. The utilization of these NOLs is subject to the ownership change limitations of Internal Revenue Code Section 382. Based on these rules, the Company had an ownership change on September 16, 1992, as a result of a reorganization. The Company had a second ownership change on December 11, 2002. Because of the complex tax rules related to these carryforwards and the uncertainty of ultimately realizing benefit from the losses, the Company has not recorded full benefit for these NOLs for financial statement purposes. In addition, some portion or all of the NOLs may not be available to reduce future federal taxable income as a result of the Company's bankruptcy filing.

During the second quarter of 2004, certain contingencies related to the NOLs were resolved and the Company reevaluated its position on the tax benefits associated with these carryforwards. As a result of this analysis, the Company recorded a $53.6 million financial statement benefit in the second quarter of 2004. The benefit was recorded in equity (rather than in the income statement) because the NOLs involved were generated prior to emergence from the Company's previous bankruptcy. This treatment is in accordance with the accounting rules of Statement of Position 90-7 (Financial Reporting by Entities in Reorganization under the Bankruptcy Code).

During the second and third quarter of 2004, statutes closing for certain tax years led the Company to conclude that certain tax contingency reserves were no longer needed. As a result of these discrete events, tax contingency reserves totaling approximately $23.7 million and $3.5 million were reversed in the second and third quarter, respectively, and recorded as a tax benefit in the accompanying statements of operations.

The Company also recorded a valuation allowance of approximately $63.9 million during 2004. The Company continued to evaluate all positive and negative evidence associated with its deferred tax assets and concluded that a valuation allowance should be established such that total net deferred tax assets are recorded at zero. As part of this process, the Company concluded that it was not appropriate to rely on future taxable income as a source of evidence to realize certain net operating losses given the uncertainty of the Company's current financial condition.

7. Stockholders' Equity (Deficit)

Comprehensive Income

Statement No. 130, *Reporting Comprehensive Income*, requires presentation of comprehensive income (loss) that consisted of the following (in thousands of dollars):

	Year Ended December 31,		
	2004	2003	2002
Net loss	$ (150,047)		
Minimum pension liability adjustment, net of tax	(7,482)		
Foreign currency translation adjustment	563		
Gain (loss) on derivative instruments, net of tax:			
Net changes in fair value of derivatives	(15,509)		
Net (gains) losses reclassified from other comprehensive income into earnings	13,685		
Comprehensive income (loss)	$ (158,790)		

Components of accumulated other comprehensive income (loss) consisted of the following (in thousands of dollars):

	December 31,		
	2004	2003	2002
Foreign currency translation adjustment	$ (5,627)		
Minimum pension liability adjustment, net of tax	(109,403)		
Gain (loss) on derivative instruments, net of tax	(4,072)		
Accumulated other comprehensive income (loss)	$ (119,102)		

Stock Options and Restricted Stock

The Company has granted stock options under various stock plans to key employees and to non-employee directors. Also the Company granted certain contractual stock options that were not granted pursuant to any plan. During the pendency of the Company's Chapter 11 case, the Company does not expect to issue additional stock options. The Omnibus Stock Incentive Plan (the "Omnibus Stock Plan"), an amendment and restatement of the 1993 Management Stock Option Plan, covers approximately 7.3 million shares of Common Stock, and also replaced the 1994 Non-Employee Directors Stock Option Plan after the 300,000 shares of Common Stock authorized under that plan had been granted. The Omnibus Stock Plan allows for six categories of incentive awards: options, stock appreciation rights, restricted shares, deferred shares, performance shares and performance units. Key employees are granted options under the various plans at terms (purchase price, expiration date and vesting schedule) established by a committee of the Board of Directors. Options granted either in accordance with contractual arrangements or pursuant to the various plans have been at a price which is equal to fair market value on the date of grant as determined by the closing price of the shares on the date the options were issued. No option may be exercised more than ten years from the date of grant. The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Statement No. 123, *Accounting for Stock-Based Compensation*, as amended by Statement 148, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

7. Stockholders' Equity (Deficit)--Continued

Stock Options and Restricted Stock--Continued

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method established in Statement of Financial Accounting Standards No. 148 and described in Note 1, the Company's net loss and loss per common share would have been increased to the pro forma amounts indicated below (in thousands, except per share data):

	2004	2003	2002
Net loss as reported	$ (150,047)		
Deduct: Total stock-based compensation expense Determined under fair-value based method for all awards, net of tax	2,347		
Pro forma net loss	$ (152,394)		
Basic and diluted loss per common share:			
As reported	$ (3.01)		
Pro forma	$ (3.05)		

There were no options granted in 2004.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

7. Stockholders' Equity (Deficit)--Continued

Stock Options and Restricted Stock--Continued

Changes in outstanding options were as follows:

	Number of Shares (in thousands)			Weighted-Average Option Price
	Qualified Plans	Contractual	Total	Per Share
Options outstanding at January 1, 2004	3,171	20	3,191	$ 17.05
Granted	-	-	-	$ -
Exercised	-	-	-	$ -
Terminated	(150)	-	(150)	$ 20.19
Options outstanding at December 31, 2004	3,021	20	3,041	$ 16.89

At December 31, 2004, options for 2,865,082 shares were exercisable at prices ranging from $1.13 to $36.81 per share.

The following table summarizes information about stock options at December 31, 2004, (shares in thousands):

	Outstanding Stock Options			Exercisable Stock Options	
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$ 1.13 to $10.00	1,458	6.1 years	$ 7.34	1,282	$ 7.35
$10.01 to $20.00	438	3.7 years	$ 16.34	438	$ 16.34
$20.01 to $30.00	508	2.9 years	$ 20.96	508	$ 20.96
$30.01 to $36.81	637	4.2 years	$ 35.89	637	$ 35.89
$ 1.13 to $36.81	3,041	4.8 years	$ 16.89	2,865	$ 17.48

No restricted shares were awarded in 2004. During the pendency of the chapter 11 case, the Company does not expect to issue any additional restricted shares.

7. Stockholders' Equity (Deficit)--Continued

Stockholder Rights Plan

On May 9, 2001, the Company's Board of Directors adopted a Stockholder Rights Plan ("Rights Plan") designed to protect Company stockholders' interests in the event of a takeover attempt. The Board of Directors did not adopt the Rights Plan in response to any specific takeover threat.

In adopting the Rights Plan, the Board declared a dividend distribution of one Common Stock purchase right for each outstanding share of Common Stock of the Company, payable to stockholders of record at the close of business on May 21, 2001. The rights will become exercisable only in the event, with certain exceptions, a person or group of affiliated or associated persons acquires 15% or more of the Company's voting stock, or a person or group of affiliated or associated persons commences a tender or exchange offer that, if successfully consummated, would result in such person or group owning 15% or more of the Company's voting stock. A stockholder who owns 15% or more of the Company's voting stock as of May 9, 2001, will not trigger this provision unless the stockholder thereafter acquires an additional one percent or more of the outstanding stock. The rights will expire on May 9, 2011.

Upon the occurrence of certain events, holders of the rights (other than rights owned by an acquiring person or group) would be entitled to purchase either the Company's Common Stock or shares in an "acquiring entity" at approximately half of market value. Further, at any time after a person or group acquires 15% or more (but less than 50%) of the Company's outstanding voting stock, subject to certain exceptions, the Board of Directors may, at its option, exchange part or all of the rights (other than rights held by an acquiring person or group) for shares of the Company's Common Stock having a fair market value on the date of such acquisition equal to the excess of (i) the fair market value of Common Stock issuable upon exercise of the rights over (ii) the exercise price of the rights.

The Company generally will be entitled to redeem the rights at $0.001 per right at any time prior to the close of business on the tenth day after there has been a public announcement of the beneficial ownership by any person or group of 15% or more of the Company's voting stock, subject to certain exceptions.

Stock Bonus Plan

The Company sponsors an employee benefit plan, the WestPoint Stevens Inc. Key Employee Stock Bonus Plan, as amended, (the "Stock Bonus Plan"), covering 2,000,000 shares of the Company's Common Stock. Under the Stock Bonus Plan, the Company may grant bonus awards of shares of Common Stock to key employees based on the Company's achievement of targeted earnings levels during the Company's fiscal year. As a result of the Company’s chapter 11 filing, Stock Bonus Plan targets were not established for 2004. For performance years 1999 and later the Stock Bonus Plan provided for vesting of the bonus awards, if earned, of 10% on January 1 of the year following the year of award and 10% in each of the next nine years if the employee continues employment with the Company, and for performance years prior to 1999 the Stock Bonus Plan provided for the vesting of the bonus awards of 20% on January 1 of the year following the year of award and 20% in each of the next four years if the employee continues employment with the Company. Effective with the chapter 11 filing, the Company can no longer issue shares pursuant to the Stock Bonus Plan.

8. Derivatives

The Company uses derivative financial instruments primarily to reduce exposure to adverse fluctuations in cotton prices. When entered into, the Company formally designates and documents the financial instrument as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the value or cash flows of the underlying exposures being hedged. Derivatives are recorded in the Consolidated Balance Sheet at fair value in Prepaid expenses and other current assets or Other accrued liabilities, depending on whether the amount is an asset or liability. The fair values of derivatives used to hedge or modify the Company's risks fluctuate over time. These fair value amounts should

8. Derivatives--Continued

not be viewed in isolation, but rather in relation to the fair values or cash flows of the underlying hedged transactions and other exposures and to the overall reduction in Company risk relating to adverse fluctuations in commodity prices and other market factors. In addition, the earnings impact resulting from the effective portion of the Company's derivative instruments is recorded in the same line item within the Consolidated Statement of Operations as the underlying exposure being hedged. The Company also formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposures. Any material ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings.

At December 31, 2004, the Company had only entered into cash flow hedges.

Cash Flow Hedging Strategy

Management has been authorized to manage the Company’s exposure to price fluctuations relevant to the forecasted purchase of cotton through the use of a variety of derivative nonfinancial instruments. At December 31, 2004, these instruments covered a portion of the Company's 2005 cotton needs and include exchange traded cotton futures contracts and options.

The fair values of exchange traded cotton futures contracts and options are estimated by obtaining quotes from brokers. At December 31, 2004, the Company's cotton futures and options contracts, qualified for hedge accounting. The fair value related to cotton futures contracts at December 31, 2004, was a liability of $6.4 million for which the Company has paid cash margins. The fair value of the cotton options contracts was an asset of $0.0 million at December 31, 2004. The fair values of the Company's cotton futures contracts have been recorded as a component of OCI, net of tax. At December 31, 2004, the Company expects to reclassify all net gains or losses on derivative instruments from OCI to earnings during the next twelve months.

The Company did not discontinue any cash flow hedge relationships during the year ended December 31, 2004.

9. Lease Commitments

The Company's operating leases consist of land, sales offices, manufacturing equipment, warehouses and data processing equipment with expiration dates at various times during the next eleven years. Some of the operating leases stipulate that the Company can (a) purchase the properties at their then fair market values or (b) renew the leases at their then fair rental values.

The following is a schedule, by year, of future minimum lease payments as of December 31, 2004, under operating leases that have initial or remaining noncancelable lease terms in excess of one year (in thousands of dollars):

Year Ending December 31,	
2005	$ 12,954
2006	12,114
2007	6,829
2008	4,117
2009	3,330
Years subsequent to 2009	3,024
Total minimum lease payments	$ 42,368

9. Lease Commitments--Continued

The following schedule shows the composition of total rental expense for all operating leases, except those with terms of one month or less that were not renewed (in thousands of dollars):

	Year Ended December 31,		
	2004	2003	2002
Minimum lease payments	$ 28,322		
Less sublease rentals	(958)		
Rent expense	$ 27,364		

10. Litigation and Contingent Liabilities

Except as stated below, as of the Petition Date, the following actions in which the Company is a defendant have been enjoined from further proceedings pursuant to section 362 of the Bankruptcy Code. To the extent parties have filed timely proofs of claim, the Bankruptcy Court will determine the amount of their pre-bankruptcy claims against the Company. In certain instances, the Bankruptcy Court may permit actions to proceed to judgment for the purpose of determining the amount of the pre-bankruptcy claim against the Company. Lawsuits based on facts arising solely after the commencement of the Company's chapter 11 case are not stayed by section 362 of the Bankruptcy Code.

On October 5, 2001, a purported stockholder class action suit, entitled *Norman Geller v. WestPoint Stevens Inc., et al.* (the *"Geller* action"), was filed against the Company and certain of its former officers and directors in the United States District Court for the Northern District of Georgia. (A subsequent and functionally identical complaint was also filed.) The actions were consolidated by Order dated January 25, 2002. Plaintiffs served a Consolidated Amended Complaint (the "Amended Complaint") on March 29, 2002. The Amended Complaint asserted claims against all Defendants under § 10(b) of the Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and against the Company and Defendant Holcombe T. Green, Jr. as "controlling persons" under § 20(a) of the Exchange Act. The Amended Complaint alleged that, during the putative class period (i.e., February 10, 1999, to October 10, 2000), the Company and certain of its officers and directors caused false and misleading statements to be issued regarding, inter alia, alleged overcapacity and excessive inventories of the Company's towel-related products and customer demand for such products and that certain Individual Defendants wrongfully sold or pledged Company stock at inflated prices for their benefit. The Amended Complaint referred to the Company's press releases and quarterly and annual reports on Securities Exchange Commission Forms 10-Q and 10-K, which discussed the Company's results and forecasts for the fiscal years 1999 and 2000. Plaintiffs alleged that these press releases and public filings were false and misleading because they failed to disclose that the Company allegedly "knew sales would be adversely affected in future quarters and years." Plaintiffs also alleged in general terms that the Company materially overstated revenues by making premature shipments of products.

The Company's insurance carrier reached an agreement to settle the *Geller* action at no cost to the Company. The settlement was approved by the Bankruptcy Court and received final approval through a fairness hearing before the United States District Court for the Northern District of Georgia on November 16, 2004.

On March 11, 2002, a shareholder derivative action, entitled *Gordon Clark v. Holcombe T. Green, Jr., et al.* (the *"Clark* action"), was filed against certain of the Company's former directors and officers in the Superior Court of Fulton County, Georgia. The Complaint alleged that the named individuals breached their fiduciary duties by acting in bad faith and wasting corporate assets. The Complaint also asserted claims under Georgia Code Ann. §§ 14-2-740 to 14-2-747 and 14-2-831. The claims were based on the same or similar facts as were alleged in the *Geller* action.

The Clark action was voluntarily dismissed on June 28, 2004.

10. Litigation and Contingent Liabilities--Continued

On July 1, 2002, a shareholder derivative action, entitled *John Hemmer v. Holcombe T. Green, Jr., et al.* (the *"Hemmer* action"), was filed against Mr. Green and certain of the Company's other current and former directors including Messrs. Hugh M. Chapman, John F. Sorte and Ms. M. Katherine Dwyer in the Court of Chancery in the State of Delaware in and for New Castle County. The Complaint alleged that the named individuals breached their fiduciary duties and knowingly or recklessly failed to exercise oversight responsibilities to ensure the integrity of the Company's financial reporting. The Complaint also asserted that certain of the named individuals used proprietary Company information in selling or pledging Company stock at inflated prices for their benefit. The claims were based on the same or similar facts as were alleged in the *Geller* action.

The Hemmer action was voluntarily dismissed on August 25, 2004.

On March 21, 2002, an Adversary Complaint of Debtors and Debtors in Possession Against WestPoint Stevens Inc. was filed by Pillowtex, Inc., a Delaware corporation, *et al.*, and Pillowtex Corporation, *et al.*, against the Company in the United States Bankruptcy Court for the District of Delaware. Pillowtex Corporation and its related and affiliated companies ("Pillowtex") as Debtors and Debtors in Possession allege breach of a postpetition contract (the "Sale Agreement") dated January 31, 2001, among Pillowtex, Ralph Lauren Home Collection, Inc. ("RLH") and Polo Ralph Lauren Corporation ("PRLC") collectively referred to as "Ralph Lauren" and the Company. Pillowtex alleges that the Company refused to perform its purchase obligation under the Sales Agreement and is liable to it for $4,800,000 plus potentially significant other consequential damages. The Company believes that the complaint is without merit and intends to contest the action vigorously. The case is currently stayed due to the Company's bankruptcy filing.

The Company is subject to various federal, state and local environmental laws and regulations governing, among other things, the discharge, storage, handling and disposal of a variety of hazardous and nonhazardous substances and wastes used in or resulting from its operations and potential remediation obligations thereunder. Certain of the Company's facilities (including certain facilities no longer owned or utilized by the Company) have been cited or are being investigated with respect to alleged violations of such laws and regulations. The Company is cooperating fully with relevant parties and authorities in all such matters. The Company believes that it has adequately provided in its financial statements for any expenses and liabilities that may result from such matters. The Company also is insured with respect to certain of such matters. The Company's operations are governed by laws and regulations relating to employee safety and health which, among other things, establish exposure limitations for cotton dust, formaldehyde, asbestos and noise, and regulate chemical and ergonomic hazards in the workplace.

Although the Company does not expect that compliance with any of such laws and regulations will adversely affect the Company's operations, there can be no assurance such regulatory requirements will not become more stringent in the future or that the Company will not incur significant costs in the future to comply with such requirements.

The Company and its subsidiaries are involved in various other legal proceedings, both as plaintiff and as defendant, which are normal to its business. It is the opinion of management that the aforementioned actions and claims, if determined adversely to the Company, will not have a material adverse effect on the financial condition or operations of the Company taken as a whole.

11. Cash Flow Information

(In thousands of dollars)	Year Ended December 31, 2004	2003	2002
Supplemental disclosures of cash flow information:			
Cash paid during the period:			
Interest	$ 78,344		
Income taxes	$ -		

Included in the above 2004, interest paid is $0.5 million of capitalized interest related to capital expenditure projects.

12. Restructuring, Impairment and Other Charges

In 2000, the Company announced that its Board of Directors had approved an Eight-Point Plan, which was created to be the guiding discipline for the Company in a global economy. The Board also approved a pretax charge for restructuring, impairment and other charges to cover the initial cost of implementing the Eight-Point Plan that was designed to streamline operations and improve profitability. The Eight-Point Plan addresses the following points: 1) expand brands; 2) explore new licensing opportunities; 3) rationalize manufacturing; 4) reduce overhead; 5) increase global sourcing; 6) improve inventory utilization; 7) enhance supply chain and logistics; and 8) improve capital structure.

On September 20, 2002, the Company announced that its Board of Directors had approved additional restructuring initiatives to increase asset utilization, lower manufacturing costs and increase cash flow and profitability through reallocation of production assets from bath products to basic bedding products and through rationalization of its retail stores division. The Company initially expected the restructuring initiatives to result in a $36.5 million pretax charge for restructuring, impairment and other charges, with approximately $20 million of the pretax charge expected to be non-cash items. As a result of additions to the initial restructuring initiatives related to the closure of its Rosemary (NC) towel fabrication and distribution facilities and its WestPoint Stevens (Europe) Ltd. foreign subsidiary, the Company's restructuring initiatives resulted in a $47.7 million pretax charge for restructuring, impairment and other charges, with approximately $31.7 million of the pretax charge being non-cash items. All charges were recorded in accordance with Statement of Financial Accounting Standard ("SFAS") No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The restructuring charge approved in 2002 was completed in the second quarter of 2004.

As a result of the restructuring initiatives begun in 2002, the Company announced the closure of its Rosemary (NC) towel finishing facility, the conversion of its Rosemary (NC) towel fabrication and distribution facilities to basic bedding facilities and the closure of its Dalton (GA) utility bedding facility. The Company announced on April 25, 2003 that the Rosemary (NC) towel fabrication and distribution facilities that were previously disclosed as being converted to basic bedding facilities would now be closed. The Company also announced the closure of twenty-two retail stores and the closure of its WestPoint Stevens (Europe) Ltd. foreign subsidiary.

The cost of the manufacturing and retail store rationalization and certain overhead reduction costs were reflected in a restructuring and impairment charge of $6.6 million, before taxes, in 2002, a restructuring and impairment charge of $12.6 million, before taxes, in 2003 and a restructuring and impairment charge of $0.4 million, before taxes, in 2004. The components of the restructuring and impairment charge in 2002 included $4.4 million for the impairment of fixed assets and $2.2 million in reserves to cover cash expenses related primarily to severance benefits. The components of the restructuring and impairment charge in 2003 included $7.0 million for the impairment of fixed assets and $5.6 million in reserves to cover cash expenses related to severance benefits of $5.2 million and other exit costs. The components of the restructuring and impairment charge in 2004 included $0.4 million in reserves to cover cash expenses related to severance benefits.

12. Restructuring, Impairment and Other Charges--Continued

During 2002, 2003 and 2004 as a result of restructuring initiatives approved in 2002, the Company has terminated and agreed to pay severance (including continuing termination benefits) to approximately 500 employees.

The following is a summary of the restructuring and impairment activity in the related reserves (in millions):

	Writedown Assets	Employee Termination Benefits	Other Exit Costs	Total Charge
2002 Restructuring and Impairment Charge:				
Third Quarter	$ 4.3	$ 1.6	$ -	$ 5.9
Fourth Quarter	0.1	0.5	0.1	0.7
Total 2002 Charge	4.4	2.1	0.1	6.6
2003 Restructuring and Impairment Charge:				
First Quarter	0.2	0.8	0.4	1.4
Second Quarter	6.8	4.3	0.8	11.9
Third Quarter	0.8	0.2	-	1.0
Fourth Quarter	(0.8)	(0.1)	(0.8)	(1.7)
Total 2003 Charge	7.0	5.2	0.4	12.6
2004 Restructuring and Impairment Charge:				
First Quarter	-	0.2	-	0.2
Second Quarter	-	0.2	-	0.2
Total 2004 Charge	-	0.4	-	0.4
Writedown Assets to Net Recoverable Value	(11.4)	-	-	(11.4)
2002 Cash Payments	-	(1.5)	-	(1.5)
2003 Cash Payments	-	(4.6)	(0.4)	(5.0)
2004 Cash Payments	-	(1.6)	(0.1)	(1.7)
Balance at December 31, 2004	$ -	$ -	$ -	$ -

During 2002, other costs of the restructuring initiatives of $11.6 million, before taxes, were recognized consisting of inventory writedowns of $10.5 million primarily related to the rationalization of its retail stores division and other expenses of $1.1 million, consisting primarily of related unabsorbed overhead, all reflected in cost of goods sold. During 2003, other costs of the restructuring initiatives of $16.0 million, before taxes, were recognized consisting of inventory writedowns of $8.4 million primarily related to the closure of its foreign subsidiary and the rationalization of its retail stores division, accounts receivable writedowns for claims of $1.4 million related to the closure of its foreign subsidiary and other expenses of $6.2 million, consisting primarily of $4.1 million of related unabsorbed overhead, $1.2 million for the relocation of machinery and other expenses of $0.9 million, all reflected in cost of goods sold. During 2004, other costs of the restructuring initiatives of $0.4 million, before taxes, were recognized for relocation of machinery, all reflected in cost of goods sold.

During the third quarter of 2003, the Company's Board of Directors approved additional restructuring initiatives to increase asset utilization, lower manufacturing costs and increase cash flow and profitability through a further realignment of manufacturing capacity. Costs of restructuring initiatives may result in restructuring, impairment and other pretax charges of

12. Restructuring, Impairment and Other Charges--Continued

up to $84.3 million, of which up to $55.6 million of the pretax charge may relate to non-cash items. The charges for the restructuring initiatives began in the fourth quarter of 2003 and will continue into 2005 in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities,* SFAS No. 112, *Employers' Accounting for Postemployment Benefits* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

As a result of the restructuring initiatives begun in 2003, the Company announced the closure of its Dunson (GA) sheeting facility, its Dixie (GA) towel facility, its Coushatta (LA) utility bedding facility, its Fairfax (AL) towel greige facility and its Longview (NC) bed accessory facility (which was announced on October 1, 2004). The Company also announced the conversion of its Lanier (AL) sheeting facility to towel production and the conversion of its Greenville (AL) blanket facility to a utility bedding facility. The Company is in the process of determining any remaining facilities that may be affected by its ongoing reorganization efforts. These plant closings and conversions will provide the Company with greater production efficiency and better-aligned capacity to compete more effectively in a global economy.

The cost of the manufacturing rationalization was reflected in a restructuring and impairment charge of $37.0 million, before taxes, in 2003 and a restructuring and impairment charge of $19.0 million, before taxes, in 2004. The restructuring and impairment charge in 2003 reflected the impairment of fixed assets. The components of the restructuring and impairment charge in 2004 included $9.4 million for the impairment of fixed assets and $9.6 million in reserves to cover cash expenses related to severance benefits.

During 2004 and 2005 as a result of restructuring initiatives approved in 2003, the Company has terminated and agreed to pay severance (including continuing termination benefits) to approximately 650 employees.

The following is a summary of the restructuring and impairment activity in the related reserves (in millions):

	Writedown Assets	Employee Termination Benefits	Other Exit Costs	Total Charge
2003 Restructuring and Impairment Charge:				
Fourth Quarter	$ 37.0	$ -	$ -	$ 37.0
2004 Restructuring and Impairment Charge:				
First Quarter	-	4.6	-	4.6
Second Quarter	1.8	1.5	-	3.3
Third Quarter	7.6	2.8	-	10.4
Fourth Quarter	-	0.7	-	0.7
Total 2004 Charge	9.4	9.6	-	19.0
Writedown Assets to Net Recoverable Value	(46.4)	-	-	(46.4)
2004 Cash Payments	-	(6.8)	-	(6.8)
Balance at December 31, 2004	$ -	$ 2.8	$ -	$ 2.8

During 2003, other costs of the restructuring initiatives of $1.4 million, before taxes, were recognized consisting of inventory writedowns of $1.0 million and other expenses of $0.4 million, consisting of related unabsorbed overhead, all reflected in cost of goods sold. During 2004, other costs of the restructuring initiatives of $16.4 million, before taxes, were recognized consisting of $1.7 million for inventory writedowns, $9.8 million of related unabsorbed overhead, $4.7 million for the relocation of machinery and other expenses of $0.2 million, all reflected in cost of goods sold.

12. Restructuring, Impairment and Other Charges--Continued

During the third quarter of 2004, the Company's Board of Directors, as part of the development of a revised business plan, approved additional restructuring initiatives to increase asset utilization, lower manufacturing costs and increase cash flow and profitability. Costs of restructuring initiatives may result in restructuring, impairment and other pretax charges of up to $226.8 million, of which up to $139.1 million of the pretax charge may relate to non-cash items (including accelerated depreciation expense). The charges for the restructuring initiatives began in the fourth quarter of 2004 and will continue into 2006 in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, SFAS No. 112, *Employers' Accounting for Postemployment Benefits* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

As a result of the restructuring initiatives begun in 2004, the Company announced the closure of its Alamance (SC) sheet fabrication and distribution facility, its Clemson (SC) greige sheeting, fabrication and distribution facility, its Middletown (IN) utility bedding facility, its Sparks (NV) utility bedding facility and its Drakes Branch (VA) towel greige facility. The Company also announced a significant reduction in workforce at its Clemson (SC) finishing plant. The Company is in the process of determining any remaining facilities that may be affected by its ongoing reorganization efforts. These plant closings will provide the Company with greater production efficiency and better-aligned capacity to compete more effectively in a global economy.

The cost of the manufacturing rationalization was reflected in a restructuring and impairment charge of $33.1 million, before taxes, in 2004 and consisted of reserves to cover cash expenses related to severance benefits.

During 2005 as a result of restructuring initiatives approved in 2004, the Company has terminated and agreed to pay severance (including continuing termination benefits) to approximately 1,900 employees.

The following is a summary of the restructuring and impairment activity in the related reserves (in millions):

	Writedown Assets	Employee Termination Benefits	Other Exit Costs	Total Charge
2004 Restructuring and Impairment Charge:				
Fourth Quarter	$ -	$ 33.1	$ -	$ 33.1
2004 Cash Payments	-	(0.1)	-	(0.1)
Balance at December 31, 2004	$ -	$ 33.0	$ -	$ 33.0

13. Impairment of Long-Lived Assets and Accelerated Depreciation Expense

During the third quarter of 2004, the Company recorded an impairment charge of $7.9 million attributable to certain fixed assets. As a result of the Board of Directors approval of certain restructuring initiatives that are contemplated in the Company's revised business plan, the Company evaluated the recoverability of long-lived assets and wrote down $7.9 million of fixed assets. The Company was required to reduce the carrying value of certain fixed assets to fair value, and recorded a fixed asset impairment charge because the carrying value of the affected fixed assets exceeded the related projected future undiscounted cash flows. Fair value was determined from market values obtained from third party appraisers.

During 2004 and as a result of the Board of Directors approval of the Company's revised business plan, the Company also recorded accelerated depreciation expense of $34.2 million on certain fixed assets, other than those fixed assets that were impacted by the long-lived asset impairment charge. The Company adjusted the remaining depreciable lives for the affected fixed assets to be consistent with assumptions in the Company's revised business plan. The accelerated depreciation expense is reflected in cost of goods sold in the accompanying statements of operations.

14. Major Customer and Product Line Information

The Company's consumer home fashions products are sold primarily to domestic catalogs, chain stores, mass merchants, department stores, specialty stores, warehouse clubs and its own retail stores. Sales to two customers as a percent of net sales, amounted to approximately 14% and 13% each for the year ended December 31, 2004. During 2004, the Company's six largest customers accounted for approximately 51%, of the Company's net sales.

Net sales of bed products, bath products and other sales (consisting primarily of sales from the Company's retail stores and foreign operations) consisted of the following (in thousands of dollars):

	Year Ended December 31,		
	2004	**2003**	**2002**
Bed products	$ 939,240		
Bath products	558,334		
Other sales	121,110		
Total net sales	$ 1,618,684		

15. Quarterly Financial Summary (Unaudited)

(In millions of dollars, except per share data)	Quarter First	Second	Third	Fourth
Year ended December 31, 2004				
Net sales	$ 399.6	$ 383.0	$ 416.1	$ 420.0
Gross earnings (1)	68.2	52.3	48.9	54.3
Operating earnings (loss) (2)	7.6	(7.4)	(23.5)	(23.1)
Net income (loss) (3) (4)	(14.9)	(24.0)	(52.6)	(58.5)
Basic and diluted net income (loss) per common share (5)	(.30)	(.48)	(1.05)	(1.18)

(1) Gross earnings for the first, second, third and fourth quarter of 2004 include costs related to restructuring initiatives of $3.0 million, $5.5 million, $3.7 million and $4.7 million, respectively.

(2) Operating earnings for the first, second, third and fourth quarter of 2004 include restructuring and impairment charges of $4.8 million, $3.5 million, $10.4 million and $33.9 million, respectively, and other costs related to restructuring initiatives of $3.0 million, $5.5 million, $3.7 million and $4.7 million, respectively totaling $7.8 million, $9.0 million, $14.1 million and $38.6 million, respectively.

(3) Net loss for the first, second, third and fourth quarter of 2004 includes restructuring and impairment charges of $4.8 million, $3.5 million, $10.4 million and $33.9 million, respectively, and other costs related to restructuring initiatives of $3.0 million, $5.5 million, $3.7 million and $4.7 million, respectively, before income tax benefit of $2.8 million, $3.2 million, $5.1 million and $13.9 million, respectively, for a net amount of $5.0 million, $5.7 million, $9.0 million and $24.7 million, respectively.

(4) See Note 1. Summary of Significant Accounting Policies – Reconciliation to GAAP. The first quarter net loss on a GAAP basis would be a loss of $25.5 million and the second quarter net loss on a GAAP basis would be a loss of $35.7 million.

(5) Net income (loss) per common share calculations for each of the quarters is based on the average common shares outstanding for each period.

16. Accrued Employee Compensation

Accrued employee compensation consisted of the following (in thousands of dollars):

	December 31, 2004	2003
Accrued salaries and wages	$ 3,591	
Accrued sales commissions	263	
Accrued KERP	10,084	
Accrued compensated absences	12,900	
Accrued severance	27,116	
Total	$ 53,954	

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Intentionally Omitted.

Item 9B. Other Information

None.

Part III

Item 10. Directors and Executive Officers of the Registrant

Board of Directors

The Board of Directors of the Company (the "Board of Directors") currently consists of six members and is divided into three classes. The terms of office of the members of each class of directors are staggered so that the term of office of no more than one class expires in any one year.

The following table sets forth the name, age (as of May 1, 2005) and positions with the Company of each of the directors, the year in which their term of office will expire and the month and year in which each director was first elected.

Name	Age	Term Expires	Positions with the Company	Served as Director Since	
Class I					
M. L. ("Chip") Fontenot	61	2005 [1]	Director, President, Chief Executive Officer and Chief Operating Officer	February	2002
Joseph R. Gladden, Jr.	62	2005[1]	Director	May	2001
Class II					
M. Katherine Dwyer	56	2003[1]	Director	October	1996
John F. Sorte	57	2003[1]	Director	January	1993
Class III					
Hugh M. Chapman	72	2004[1]	Director	August	1997
J. Hicks Lanier	65	2004[1]	Director	May	2001

[1] Pursuant to the Company's By-Laws each director continues to hold office, after the expiration of the term, until his or her successor is elected and qualified or until his or her death, resignation or removal.

M. L. ("Chip") Fontenot has been President, Chief Executive Officer and Chief Operating Officer of the Company since October 15, 2003, and was President and Chief Operating Officer of the Company from January 2001 until October 2003. On June 1, 2003, the Company filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Prior to joining the Company, Mr. Fontenot was employed as President and Chief Operating Officer of Dyersburg Corporation, a manufacturer of knit apparel fabrics, from July 1999 until December 2000, President of Marketing and a director of that company from January 1998 until July 1999 (Dyersburg Corporation filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code on September 25, 2000, in the United States Bankruptcy Court for the District of Delaware.). He served as President and Chief Executive Officer of Decorative Home Accents, Inc., a manufacturer of home fashions products, from February 1996 until December 1997. Mr. Fontenot served as President and Chief Executive Officer of Perfect Fit Industries Inc., a manufacturer of home fashions products, from 1989 until 1996. He also served in various capacities at Springs Industries, Inc., a manufacturer and marketer of home fashions products, during a 20-plus-year tenure that included President of its Consumer Products Division and corporate Executive Vice President until 1989.

Joseph R. Gladden, Jr. from April 2001 until his retirement in November 2001 served in a consulting capacity with The Coca-Cola Company, a manufacturer, marketer and distributor of non-alcoholic beverages, concentrates and syrups, from April 2001 until his retirement in November 2001. He had been Executive Vice President and General Counsel of The Coca-Cola Company from January 2000 to April 2001 and Senior Vice President and General Counsel of The Coca-Cola Company from April 1991 to January 2000.

M. Katherine Dwyer has been Chairperson and Chief Executive Officer of Skinklinic, Inc., a skin care/cosmetic dermatology company, since April 2000. Until January 2000, she was Senior Vice President of Revlon, Inc., a mass cosmetic company, and President of Revlon Consumer Products USA.

John F. Sorte has been President and Chief Executive Officer of Morgan Joseph & Co. Inc., an investment banking firm serving middle market companies, since June 2001. He was previously President of New Street Advisors L.P., a merchant bank. Mr. Sorte is also a director of Vail Resorts, Inc., a holding company for recreational and resort properties (and a member of its compensation committee).

Hugh M. Chapman served as Chairman of NationsBank, National Association (South), a commercial bank holding company, from January 1992 until his retirement in June 1997. Until May 2005 he was also a director of The Williams Companies Inc., an energy services company (and chairman of its audit committee and a member of its executive committee and nominating and governance committee).

J. Hicks Lanier has been Chairman and Chief Executive Officer of Oxford Industries, Inc., a consumer apparel products company, since 1981 and was also President of that company from 1977 to November 2003. He is a director of Crawford & Company, a diversified insurance services company (and chairman of its compensation committee and member of its audit committee); a director of Genuine Parts Company, a distributor of automotive and industrial replacement parts and office products (and chairman of its compensation committee) and a director of SunTrust Banks, Inc. (and a member of its audit committee).

Audit Committee

The Board of Directors has a standing Audit Committee established in accordance with section 3(a)(58)(A) of the Exchange Act (15 U.S.C. 78c(a)(58)(A)). The members of the Audit Committee are J. Hicks Lanier, Chairman, M. Katherine Dwyer and Joseph R. Gladden.

Audit Committee Financial Expert

The Board of Directors has determined that the Chairman of the Audit Committee, Mr. J. Hicks Lanier, is an "audit committee financial expert," as that term is defined in Item 401(h) of Regulation S-K and "independent" for purposes of section 10A(m)(3) of the Exchange Act.

Directors' Compensation

We do not pay directors or other committee members who are employees of the Company additional compensation for service as directors or committee members. In 2004, non-employee directors received the following compensation:

Directors' Compensation Table

The following table sets forth the type and amount of compensation paid to the members of the Company's Board of Directors:

Type of Compensation	Amount
Annual Retainer	$30,000
Annual Retainer for Committee Chair	$ 4,000
Annual Retainer for Each Committee Membership	$ 3,000
Board or Committee Attendance Fee (per meeting)	$ 1,500

Executive Officers

The following table sets forth the name, age (as of May 1, 2005) and positions of each of the executive officers of the Company:

Name of Officer	Age	Title
M. L. ("Chip") Fontenot	61	Director, President, Chief Executive Officer and Chief Operating Officer
Lester D. Sears	56	Senior Vice President-Finance and Chief Financial Officer
Arthur S. Birkins	48	President-Basic Bedding
Robert B. Dale	58	President-Bed and Bath

For a discussion of the business experience of Mr. Fontenot, see "Item 10. Directors and Executive Officers of the Registrant."

Lester D. Sears joined the Company on April 16, 2001, as Senior Vice President-Finance and Chief Financial Officer. Prior to joining the Company Mr. Sears was employed as Executive Vice President and Chief Financial Officer for Glenoit Corporation, a textile manufacturing company, from 1996 (Glenoit Corporation filed a petition for relief under chapter 11 of the Bankruptcy Code on August 8, 2000, in the United States Bankruptcy Court for the District of Delaware). Mr. Sears was Executive Vice President and Chief Financial Officer for Perfect Fit Industries, Inc. where he was an Equity Partner from 1989 until 1996. Mr. Sears served as Controller of the Consumer Products Division of Springs Industries, Inc. from 1984 until 1989. Previously he served as a Certified Public Accountant with the independent accounting firm of Haskins & Sells (now Deloitte & Touche) for approximately three years.

Arthur S. Birkins has been President-Basic Bedding Division since October 20, 2001. Upon joining the Company on May 7, 2001, he was Senior Vice President-Basic Bedding. Prior to joining the Company Mr. Birkins was Vice President-Waverly Home Fashions, a division of F. Schumacher and Company, a supplier of home fashions products. He began with Waverly as Vice President-Sales, National Accounts for Waverly Lifestyle Group in 1999. From 1997 he served as President of The Rug Barn, Inc., while simultaneously heading the Window Fashions Division of Home Innovations, Inc. from 1996. Both are divisions of Decorative Home Accents, Inc.

Robert B. Dale has been President-Bed and Bath Division since October 10, 2001. He joined the Company on April 16, 2001, as Senior Vice President-Sales and Marketing. Prior to joining the Company Mr. Dale was Vice President-Marketing and Sales of the Home Products Division of Thomaston Mills, Inc., a manufacturer and marketer of home fashions products, from 1999 and was President and Chief Operating Officer - Consumer Products with Glenoit Corporation from 1996 until 1999.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon its review of the copies of Forms 3, 4 and 5 and amendments thereto or written representation received from reporting persons, the Company believes that during 2004 all filing requirements applicable to its officers, directors and beneficial owners of more than ten percent of the Company's Common Stock under Section 16(a) of the Exchange Act were met.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. You can find our Code of Business Conduct and Ethics on our website: http://phx.corporate-ir.net/phoenix.zhtml?c=82626&p=irol-govhighlights. We will post any amendments to or waivers from, a provision of the Code of Business Conduct and Ethics, as well as any waivers that are required to be disclosed by the rules of the Securities and Exchange Commission, on our website.

Item 11. Executive Compensation

Summary Compensation Table

The following table sets forth information concerning total compensation earned by or paid to the executive officers of the Company listed below (the "Named Executive Officers") during the fiscal years indicated for services rendered to the Company and its subsidiaries.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	**Year**	**Salary($)**	**Bonus($)[1]**	**Other Annual Comp.($)**	**Restricted Stock Awards ($)**	**Stock Options (# of Shares)**	**All Other Comp.($) [1]**
M. L. ("Chip") Fontenot	2004	493,319	138,610	224,282[2]	--	--	514,887[3]
President, Chief Executive	2003	478,950	299,200	207,328[2]	--	--	96,191[3]
Officer and Chief	2002	465,000	--	195,665[2]	--	--	4,312[3]
Operating Officer							
Lester D. Sears	2004	350,100	98,370	10,929[4]	--	--	364,025[5]
Senior Vice President-	2003	339,900	212,335	8,610[4]	--	--	66,865[5]
Finance and Chief	2002	330,000	--	584,153[4]	--	--	2,551[5]
Financial Officer							
Robert B. Dale	2004	318,270	156,581	--	--	--	159,663[6]
President-Bed & Bath	2003	309,000	172,164	--	--	--	46,555[6]
	2002	300,000	27,390	--	--	--	3,032[6]
Arthur S. Birkins	2004	265,225	130,484	--	--	--	132,894[7]
President-Basic Bedding	2003	257,500	120,645	--	--	--	38,629[7]
	2002	250,000	--	--	--	--	2,354[7]

1 Portions of the bonuses earned in 2003 and 2004 were paid in the first quarters of 2004 and 2005, respectively. One half of the payment amount of bonuses earned following the third quarter of 2003 has been deferred, except that for Messrs. Fontenot and Sears all of the bonuses earned for quarters ending after the second quarter of 2004 have been deferred. Deferred amounts will not be paid to the executives until confirmation of a plan by the Bankruptcy Court, unless the executives are terminated earlier without cause. The deferred bonus amounts are shown under "All Other Comp.($)."

2 Includes amounts paid to Mr. Fontenot as reimbursement for expenses incurred for travel between New York, New York, and Charlotte, North Carolina, amounts for expenses incurred for meals in New York and automobile allowance and $82,650, $79,920 and $79,320 for lodging in New York, New York, for 2004, 2003 and 2002, respectively. Also includes $98,613, $81,950 and $87,535 for 2004, 2003 and 2002, respectively, paid to Mr. Fontenot to provide him on an after-tax basis with sufficient funds to discharge any federal, state or local income taxes imposed on such housing and travel reimbursements. See "--Employment Agreements, Termination Provisions and Change in Control Arrangements."

3 Includes $2,312, $4,244 and $4,244 for excess value of life insurance over premiums paid by Mr. Fontenot for 2002, 2003 and 2004, respectively; $2,000, $2,000 and $2,050 in the Company's matching contributions under the Savings Plan for 2002, 2003 and 2004, respectively; and $89,947 and $508,593 for deferred bonus payments for 2003 and 2004, respectively.

4 Includes $573,634 for relocation expenses (including reimbursement for loss on sale of personal residence and $264,159 to provide Mr. Sears, on an after-tax basis, with sufficient funds to discharge any federal, state or local income taxes imposed on such relocation and reimbursements) for 2002; and $10,519, $8,610 and $10,929 automobile allowance for 2002, 2003 and 2004, respectively.

5 Includes $551, $1,032 and $1,032 for excess value of life insurance over premiums paid by Mr. Sears for 2002, 2003 and 2004, respectively; $2,000, $2,000 and $2,050 in the Company's matching contributions under the Savings Plan for 2002, 2003 and 2004, respectively; and $63,833 and $360,943 for deferred bonus payments for

2003 and 2004, respectively.

6 Includes $1,032 for excess value of life insurance over premiums paid by Mr. Dale for 2002, 2003 and 2004, respectively; $2,000, $2,000 and $2,050 in the Company's matching contributions under the Savings Plan for 2002, 2003 and 2004, respectively; and $43,523 and $156,581 for deferred bonus payments for 2003 and 2004, respectively.

7 Includes $354, $360 and $360 for excess value of life insurance over premiums paid by Mr. Birkins for 2002, 2003 and 2004, respectively; $2,000, $2,000 and $2,050 in the Company's matching contributions under the Savings Plan for 2002, 2003 and 2004, respectively; and $36,269 and $130,484 for deferred bonus payments for 2003 and 2004, respectively.

Senior Management Incentive Plan

The purpose of the WestPoint Stevens Inc. Senior Management Incentive Plan (the "MIP") is to provide additional compensation above base salary to key employees if the Company meets or exceeds certain performance goals established by the Compensation Committee. For fiscal year 2001, incentive payments under the MIP for certain participants were based solely upon predetermined annual operating profit goals of the Company. Other participants' payments were based on the operating profit (as defined in the MIP) of the Company and certain business units and/or divisions. Until fiscal year 2002, the MIP provided that no participant would receive payments under the plan unless the Company's actual annual operating profit equaled or exceeded 90% of the predetermined operating profit goal.

On February 14, 2002, performance awards payable to the senior management with respect to 2002 were determined based on the terms and provisions of a revised MIP with new predetermined goals established by the Compensation Committee. The new MIP goals were based solely upon predetermined rates of return on the invested capital of the Company and its business units or divisions. The return on invested capital was calculated as the quotient derived by dividing the corporate or divisional operating income by the sum of a) net fixed assets at year-end; b) average inventories; and c) average accounts receivable.

For 2003 and 2004 the MIP was replaced by a key employee retention and severance program with the approval of the Bankruptcy Court. See "-- Key Employee Retention and Severance Program" below.

Key Employee Retention and Severance Program

To ensure that certain key employees continue to provide essential management and operational services during the Company's chapter 11 case, the Compensation Committee approved the Company's Key Employee Retention and Severance Program (collectively, the "KERP") which was approved by the Bankruptcy Court on October 23, 2003. Under the KERP the performance targets of the MIP were modified to reflect achievements of Company wide levels of EBITDA and cash availability to better reflect the interests of the Company's creditors. For achieving various levels of each target each eligible employee will be paid a percentage of base salary as a bonus. Participants receive a quarterly incentive payment based on achieving between 85% to 120% of the EBITDA target and a quarterly incentive payment based on achieving between 85% to 120% of the cash availability target, as each target is projected based on the Company's business plan for such quarter. Payment of one half of the performance awards earned after the third quarter of 2003 is deferred until confirmation of a plan by the Bankruptcy Court.

On August 12, 2004, the Bankruptcy Court entered an order extending the KERP to cover those periods through and including the Company's fiscal quarter ending June 30, 2005. For the quarters ending June 30 and September 30, 2004, the Court authorized the Company to make aggregate payments of $2,251,395 per quarter in lieu of the KERP payments that otherwise may have been required for those periods. For the quarters ending December 31, 2004, March 31, 2005, and June 30, 2005, the Court set the "Target" metrics for EBITDA and cash availability at the amounts established by the Company in its 2004 Business Plan. In addition, pursuant to an agreement reached between the Company and its First Lien Lenders, the Bankruptcy Court authorized the deferral of 100% of the KERP bonus payments for Mr. Fontenot and Mr. Sears until confirmation of a plan by the Bankruptcy Court and the establishment of an escrow account for the deposit of KERP payments due to Mr. Fontenot and Mr. Sears until such time.

Key Employee Stock Bonus Plan

Pursuant to the Key Employee Stock Bonus Plan, the Company may grant bonus awards of shares of Common Stock to those key employees of the Company who are deemed eligible to participate in the Key Employee Stock Bonus Plan, based on the

Company's achievement of certain pre-established earnings levels during the Company's fiscal year. No Bonus Awards were earned for Fiscal 2001 and such Bonus Awards were forfeited. On February 13, 2003, the Compensation Committee determined that Bonus Awards for Fiscal 2002 had not been earned and such Bonus Awards were forfeited. On February 13, 2003, the Compensation Committee suspended the granting of Bonus Awards for Fiscal 2003 and no further awards have been granted under the Key Employee Stock Bonus Plan.

Option/SAR Grants in Last Fiscal Year

Stock options exercisable for shares of Common Stock are granted to certain key employees of the Company pursuant to the WestPoint Stevens Inc. Omnibus Stock Incentive Plan (the "Omnibus Stock Incentive Plan") in order to secure and retain the services of persons capable of filling key positions with the Company, to encourage their continued employment and to increase their interest in the growth and performance of the Company by providing them with an ownership stake. The Company did not grant any stock options during the last fiscal year and does not intend to grant any additional stock options during the pendency of the chapter 11 case.

Fiscal Year-End Option Holdings

The following table summarizes for each of the Named Executive Officers option exercises during Fiscal 2003, including the aggregate value of gains on the date of exercise, the total number of unexercised options for Common Stock, if any, held at December 31, 2004, and the aggregate dollar value of unexercised in-the-money options for Common Stock, if any, held at December 31, 2004. Value of unexercised in-the-money options at fiscal year-end is the difference between the exercise or base price of such options and the fair market value of the underlying Common Stock on December 30, 2004, which was $.02 per share. These values have not been, and may never be, realized, as these options have not been, and may never be, exercised. Actual gains, if any, upon exercise will depend on the value of Common Stock on the date of any exercise of options.

Aggregated Option/SAR Exercises in the Last Fiscal Year and FY-End Option/SAR Values

			Number of Securities Underlying Unexercised Options at FY-End (#)		Value of Unexercised in-the-Money Options at FY-End ($)	
Name	Shares Acquired on Exercise (#)	Value Realized ($)	Exercisable	Unexercisable	Exercisable	Unexercisable
M. L. ("Chip") Fontenot	--	--	500,000	--	--	--
Lester D. Sears	--	--	100,000	--	--	--
Robert B. Dale	--	--	100,000	--	--	--
Arthur S. Birkins	--	--	50,000	--	--	--

Pension Plan and Retirement Plans

WestPoint Pension Plan

Executive officers of the Company and certain of its subsidiaries are covered by the WestPoint Stevens Inc. Retirement Plan (the "WestPoint Pension Plan"), a defined benefit pension plan. The WestPoint Pension Plan covers all salaried employees of the Company and certain subsidiaries and affiliates who have met eligibility requirements and may include certain hourly employees if designated for coverage. Effective January 1, 2005, the Company amended the WestPoint Pension Plan to cease all future benefit accruals.

Compensation covered by the pension plan consisted of all payments made to a participant for personal services rendered as an employee of the Company that are subject to federal income tax withholding, including before tax contributions to certain employee benefit plans and excluding income attributable to stock based awards and imputed income attributable to certain fringe benefit programs. Plan compensation covered up to a maximum of $205,000 per individual for 2004, the last year in which benefits accrued under the plan. The plan provides that participants' benefits fully vest after five years of service or the attainment of age 65.

Retirement benefits for the WestPoint Pension Plan for service performed through December 31, 2002, were computed as the sum of 1% of a participant's average compensation (the annual average of five consecutive, complete plan years of highest compensation during the last 10 years of service) multiplied by the participant's years of benefit service, plus 0.6% of a participant's average compensation which exceeds the Social Security Integration Level ($39,444 in 2002), multiplied by the participant's years of benefit service, not to exceed 35 years.

Annual retirement benefits for service completed between December 31, 2002 and December 31, 2004, were computed as 1% of the average of the participant's compensation for each year multiplied by the years of service completed between December 31, 2002 and December 31, 2004.

None of the Named Executive Officers are vested in the WestPoint Pension Plan.

Supplemental Retirement Plan

The Company's Supplemental Retirement Plan ("Supplemental Retirement Plan") provides for payment of amounts that would have been paid under the WestPoint Pension Plan but for the limitations on covered compensation and benefits applicable to qualified retirement plans imposed by the Internal Revenue Code of 1986, as amended (the "Code"). For certain participants, the compensation taken into account under the Supplemental Retirement Plan is limited to the lesser of (i) $300,000 or (ii) 120% of the participant's base salary. The Supplemental Retirement Plan is not qualified under Section 401(a) of the Code and benefits are paid from the general assets of the Company.

During fiscal 2001, the Supplemental Retirement Plan was amended to provide that no participant would accrue any additional benefit on or after February 13, 2001. In addition, the plan was amended to provide all active participants with a one-time, irrevocable election to receive an alternative benefit valued by and paid in the form of shares of Common Stock. The number of shares of Common Stock to be issued under the alternative benefit was determined by dividing the present value of each participant's accrued benefit by the fair market value of one share of Common Stock on the date the participant elected to receive the alternative benefit. None of the Named Executive Officers, had accrued benefits under the Supplemental Retirement Plan. The Company does not anticipate issuing any more shares of its Common Stock pursuant to the Supplemental Retirement Plan and anticipates it will be terminated in the chapter 11 case.

Employment Agreements, Termination Provisions and Change in Control Arrangements

The Company entered into an employment agreement with Mr. Fontenot effective January 5, 2001, for a three-year term, which automatically extend on a daily basis until notice is given by either party to the agreement to cease any further extension. The employment agreement provides an annual base salary of $450,000, subject to annual review: In 2004, Mr. Fontenot received an annual base salary in the amount of $493,319. Effective January 1, 2005, Mr. Fontenot's annual base salary increased to $508,119. Mr. Fontenot is provided reasonable personal use of the Company aircraft and a choice of an automobile allowance or club membership. Mr. Fontenot is provided reasonable expenses for lodging in New York, New York, and for travel between New York, New York, and Charlotte, North Carolina, with additional amounts added to his income to provide him with funds to discharge any federal, state or local income taxes imposed on such housing and travel reimbursements. The agreement provides that Mr. Fontenot will participate in the top bonus category of 120% of his annual base salary under the Company's Senior Management Incentive Plan based upon the Company's achievement of certain performance goals in existence from time to time. The agreement also provides that he will participate in the Company's Key Employee Stock Bonus Plan and Omnibus Stock Incentive Plan as well as any medical, dental, disability, insurance, retirement, savings, vacation or other welfare or fringe benefit plans or programs made available to the Company's other senior executive officers. See "-- Senior Management Incentive Plan" and "-- Key Employee Stock Bonus Plan."

Under his employment agreement, upon a termination of employment by the Company in 2004 without "Cause" or by the executive for "Good Reason" (which includes, among other things, a change in control of the Company in certain circumstances), Mr. Fontenot would have received the following payments after such termination became effective (in addition to all compensation owed to him at the time of such termination): the sum of (i) his annual base salary times the number of whole and fractional years remaining in the term of the employment agreement; (ii) the target bonus amount payable to such executive under the management incentive plan applicable to the year, times the number of years remaining in the term of the employment agreement (with any fractional years treated as whole years) whether or not the requirements otherwise applicable to the payment of such bonus amount under such plan were met; and (iii) all outstanding unvested awards under the Key Employee Stock Bonus Plan and the Omnibus Stock Incentive Plan which would have become immediately vested and exercisable as applicable. To receive amounts described in (i), (ii) and (iii) above, Mr. Fontenot would have been required to execute a release of all employment-related claims. The amounts payable under (i) and (ii) were to be paid on dates they would have been paid if the employment had not been terminated, provided, however, payment would cease and be forfeited if Mr. Fontenot became employed by a "competitor" as defined in the non-compete provisions of the agreement. Accordingly, if such a termination were to have occurred in 2004, Mr. Fontenot would have been entitled to a cash payment of $2,438,971. In addition, the Company agreed to make an indemnity payment with respect to any of the aforementioned lump-sum cash payment and any payments under any plan or other compensatory arrangement in connection therewith in an amount equal to the sum of (i) the excise tax, if any, imposed under Section 4999 of the Code in respect of any such payments and (ii) any federal, state or local income tax imposed on any such indemnity payment. In addition, Mr. Fontenot would have been entitled to receive continued medical and dental benefits for the remaining term of the employment agreement.

On October 23, 2003, the Bankruptcy Court approved the KERP a part of which was a new Severance Plan for the Company's top 23 key executives (the "KERP Severance Plan"). The Company entered into Severance Agreements with each of the participants in the KERP Severance Plan. The Severance Agreements set forth the terms and conditions for participation and replace any and all other severance agreements, arrangements or other severance rights in regard to employment with the Company. Under their Severance Agreements, Mr. Fontenot and Mr. Sears each will be entitled to a lump sum severance payment, upon termination by the Company without "Cause" or resignation by the executive for "Good Reason," equal to three times their respective base salaries. The remaining participants will be entitled to a lump sum severance payment, upon termination by the Company without cause or by the executive for "Good Reason," equal to each of their respective base salaries.

Under the Severance Agreements "For Cause" includes (a) the executive's fraud, embezzlement or conviction of any felony; (b) a material breach of, or willful failure to perform and discharge, other than for Good Reason the executive's duties and responsibilities, or a material breach of the Company's Code of Business Conduct and Ethics. "Good Reason" includes (a) the assignment of any duties inconsistent in any material respect with the executive's current position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any other action by the Company which results in a material diminishment in such position, authority, duties or responsibilities; (b) any failure by the Company to comply with any material provision of any employment agreement to which the executive is a party; (c) any reduction in the executive's "Base Salary" or any decrease in bonus opportunity by reason of a change in the executive's employee group under the Company's Senior Management Incentive Plan or any replacement plan; or (d) any relocation of the executive's principal place of work to a new location which is more than 50 miles distance from his current principal place of work.

The Company entered into an employment agreement with Mr. Sears effective April 17, 2001, providing a starting annual base salary of $320,000, participation in the MIP at the top bonus category and participation in the Company's Key Employee Stock Bonus Plan and Pension Plan. Under the agreement, Mr. Sears was awarded stock options to purchase 100,000 shares of Company Common Stock at an exercise price of $7.90 per share to vest equally over a five year period and a guaranteed minimum cash bonus of $80,000 for fiscal year 2001. Pursuant to his employment agreement, upon termination of employment by the Company for any reason or resignation by the executive for good reason, Mr. Sears would receive a payment equal to his annual cash compensation, all outstanding unvested awards under the Company's Key Employee Stock Bonus Plan would immediately vest and become nonforfeitable, and any outstanding stock options would immediately become vested and exercisable. Effective January 1, 2004, Mr. Sears' annual base salary was increased to $350,000. Accordingly, if such a termination were to have occurred in 2004, Mr. Sears would have been entitled to a cash payment of $350,000. The KERP Severance Agreement supersedes the severance provisions of Mr. Sears' employment agreement.

On April 5, 2001, the Company sent an employment letter to Mr. Dale outlining his employment arrangement, providing a starting annual base salary of $250,000 and payment of an amount equal to his annual salary upon termination by the Company during the first two years of employment and thereafter equal to six months salary. Mr. Dale was awarded stock options to purchase 100,000 shares of Common Stock at an exercise price of $8.00 per share to vest equally over a five-year period. The KERP Severance Agreement supersedes the severance provisions of Mr. Dale's employment letter.

On April 9, 2001, the Company sent an employment letter to Mr. Birkins outlining his employment arrangement, providing a starting annual base salary of $225,000 and providing for payment of an amount equal to his annual salary upon termination from the Company during the first two years of employment and thereafter equal to six months salary. Mr. Birkins was awarded stock options to purchase 50,000 shares of Common Stock at an exercise price of $4.44 per share vesting equally over a five-year period and a guaranteed minimum bonus of $67,500 for calendar year 2001. The KERP Severance Agreement supersedes the severance provisions of Mr. Birkins' employment letter.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information as of May 1, 2005 (except as otherwise specified in the footnotes) about beneficial ownership of Common Stock by (i) each person who is the beneficial owner of more than 5% of the outstanding Common Stock, (ii) all directors of the Company, (iii) the three most highly compensated executive officers who are not directors, and (iv) all directors and executive officers as a group, based in each case on information furnished to the Company by each such person.

Name and Address of Beneficial Owner[1]	Amount and Nature of Beneficial Ownership	Percent Of Class
Greenwich Street Capital Partners II, L.P[2]	5,636,260[3]	11.13%
Greenwich Fund, L.P. [2]	190,921[3]	.38%
Greenwich Street Employees Fund, L.P. [2]	336,468[3]	.66%
TRV Executive Fund, L.P. [2]	27,778[3]	.05%
GSCP Offshore Fund, L.P.[2]	117,504[3]	.23%
Wachovia Bank, National Association 301 South College Street Charlotte NC 28270	3,096,661	6.11%
Bank of America Corporation [4]	2,639,095	5.21%
NB Holdings Corporation[4]	2,639,095	5.21%
Bank of America, N.A.[4]	2,424,095	4.79%
Bank of America Strategic Solutions, Inc. [4]	2,424,095	4.79%
Bank of America Securities, LLC[4]	215,000	.42%
NationsBanc Montgomery Holdings Corporation 100 North Tryon Street, Floor 25 Bank of America Corporate Center Charlotte, NC 28255	215,000	.42%
Hugh M. Chapman	59,000[5]	*
M. Katherine Dwyer	60,000[6]	*
Joseph R. Gladden, Jr.	25,000[7]	*
J. Hicks Lanier	55,000[8]	*
John F. Sorte	160,000[9]	*
M. L. ("Chip") Fontenot	510,000[10]	*
Lester D. Sears	100,000[11]	*
Robert B. Dale	105,000[12]	*
Arthur S. Birkins	50,000[13]	*
All Directors and Executive Officers as a group (9 persons)	1,124,000[14]	2.18%

* Represents less than 1%

(1) The address of each person who is an officer or director of the Company is c/o WestPoint Stevens Inc., 507 West Tenth Street, West Point, Georgia 31833.

(2) The business address for each of Greenwich Street Capital Partners II, L.P., Greenwich Fund, L.P., Greenwich Street Employees Fund, L.P., TRV Executive Fund, L.P. and GSCP Offshore Fund, L.P. (collectively, the "Greenwich Street Funds") is 500 Campus Drive, Suite 220, Florham Park, NJ 07932.

(3) Greenwich Street Capital Partners II, L.P. (GSCP II) is the direct beneficial owner of 5,636,260 shares, Greenwich Fund, L.P. is the direct beneficial owner of 190,921 shares, Greenwich Street Employees Fund, L.P. is the direct beneficial owner of 336,468 shares, TRV Executive Fund, L.P. is the direct beneficial

owner of 27,778 shares and GSCP Offshore Fund, L.P. is the direct beneficial owner of 117,504 shares. By virtue of its position as general partner of each of the Greenwich Street Funds, Greenwich Street Investments II, L.L.C. ("GSI") may be deemed to be the indirect beneficial owner of the same shares (i.e., an aggregate of 6,308,931 shares, or 12.47%). By virtue of its position as manager of each of the Greenwich Street Funds, GSCP (NJ), LP. may be deemed to be the indirect beneficial owner of the same shares (i.e., an aggregate of 6,308,931 shares, or 12.47% of the Common Stock). By virtue of its position as general partner of GSCP (NJ) L.P., GSCP (NJ) Inc. may be deemed to be the indirect owner of the same shares (i.e., an aggregate of 6,308,931 shares, or 12.47% of the Common Stock). By virtue of their positions as managing members of GSI (other than Andrew J. Wagner), executive officers and stockholders of GSCP (NJ) Inc. and limited partners of GSCP (NJ) L.P., each of Messrs. Keith W. Abell, Alfred C. Eckert III, Robert A. Hamwee, Richard M. Hayden, Thomas V. Inglesby, Matthew C. Kaufman, Andrew J. Wagner and Ms. Christine K. Vanden Beukel may be deemed to be indirect beneficial owners of the same shares (i.e., an aggregate of 6,308,931 shares, or 12.47% of the Common Stock). Each of GSI, GSCP (NJ), L.P., GSCP (NJ) Inc. and Messrs. Abell, Eckert, Hamwee, Hayden, Inglesby, Kaufman and Wagner and Ms. Vanden Beukel disclaims ownership of such shares.

(4) Represents 215,000 shares held directly by Banc of America Securities LLC ("BAS") and 2,424,095 shares held directly by Banc of America Strategic Solutions, Inc. ("BASSI"). All shares reported by the other Bank of America entities are held indirectly as a result of such entity's direct or indirect ownership of BAS and/or BASSI. Such holdings information is based on the Schedule 13G filed by Bank of America Corporation, the ultimate parent company of BAS and BASSI, on February 11, 2005.

(5) Includes 4,000 shares held directly and 55,000 shares as to which Mr. Chapman holds options exercisable within 60 days.

(6) Includes 60,000 shares as to which Ms. Dwyer holds options exercisable within 60 days.

(7) Includes 5,000 shares held directly and 20,000 shares as to which Mr. Gladden holds options exercisable within 60 days.

(8) Includes 35,000 shares held directly and 20,000 shares as to which Mr. Lanier holds options exercisable within 60 days.

(9) Includes 115,000 shares held directly and 45,000 shares as to which Mr. Sorte holds options exercisable within 60 days.

(10) Includes 10,000 shares held directly and 500,000 shares as to which Mr. Fontenot holds options exercisable within 60 days.

(11) Includes 100,000 shares as to which Mr. Sears holds options exercisable within 60 days.

(12) Includes 1,500 shares held directly, 3,500 shares held indirectly, 100,000 shares as to which Mr. Dale holds options exercisable within 60 days.

(13) Includes 50,000 shares as to which Mr. Birkins holds options exercisable within 60 days.

(14) Includes 205,131 shares held directly, 23,500 shares held indirectly, 802,000 shares as to which certain members of management hold options exercisable within 60 days, and 200,000 shares as to which non-employee directors hold options exercisable within 60 days. See footnotes (5)-(13).

Item 13. Certain Relationships and Related Transactions

None.

Item 14. Principal Accounting Fees and Services

Audit Fees

Ernst & Young LLP (E&Y) was the Company's principal accountant for the years ended December 31, 2004 and 2003. Total fees paid to E&Y for audit services rendered during 2004 and 2003 were $1,895,682 and $908,547, respectively.

Audit-Related Fees

Total fees paid to E&Y for audit-related services rendered during 2004 and 2003 were $573,284 and $1,056,405, respectively. These services consisted primarily of consultation on matters related to accounting treatment of transactions and/or the actual or potential impact of final or proposed rules, standards or interpretations by standard setting bodies and consultation regarding Section 404 of the Sarbanes-Oxley Act of 2002.

Tax Fees

Total fees paid to E&Y for tax services rendered during 2004 and 2003 were $124,942 and $237,828, respectively. These services consisted primarily of tax planning and consultation.

All Other Fees

Total fees paid to E&Y for all other services rendered during 2004 and 2003 were $32,320 and $1,705,296, respectively. These services consisted primarily of actuarial services, internal audit teaming services, corporate finance services and other professional services.

Audit Committee Pre-Approval Policy

Under policies and procedures adopted by the Audit Committee of the Company's Board of Directors, the Company's principal accountant may not be engaged to provide non-audit services that are prohibited by law or regulation to be provided by it, nor may the Company's principal accountant be engaged to provide any other non-audit service unless the Audit Committee or its Chairman pre-approve the engagement of the Company's accountant to provide both audit and permissible non-audit services. If the Chairman pre-approves any engagement or fees, he is to make a report to the full Audit Committee at its next meeting. One hundred percent (100%) of all services provided by the Company's principal accountant in 2004 ~~3~~ were pre-approved by the Audit Committee or its Chairman.

Item 15. Exhibits and Financial Statement Schedules

Intentionally Omitted.