

JoSEPHINE CHAUS

2003 Annual Report

Bernard Chaus, Inc.

TO OUR SHAREHOLDERS:

In fiscal year 2003, Chaus achieved a substantial turnaround in its performance, driven by key steps we have taken to enhance our strong operational foundation and best manage our business within a continued challenging economic and retail environment. Importantly, the significant strides we have made position us well for the future as we pursue opportunities to grow our business over the long term.

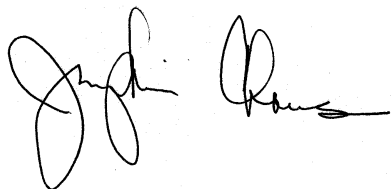
Net income for fiscal 2003 reached \$4.7 million, or \$0.16 per diluted share. This compares to a net loss in fiscal 2002 of \$2.2 million, or a loss of \$0.08 per share, which included a tax benefit of \$944,000 and non-recurring other income of \$193,000. With six consecutive profitable quarters behind us, we now look forward to extending our momentum in fiscal 2004.

A key contributor to our performance for fiscal 2003 was the increase we achieved in our gross margin, which climbed to 25.5% from 19.8% in fiscal 2002. The improvement was fueled by more efficient sourcing and a reduction in off-price sales, which reflected our efforts to carefully manage our inventories, as well as initiatives we have taken to lower our cost structure.

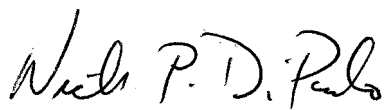
As we took these actions, we also began exploring opportunities that would complement the longtime presence of our core Josephine Chaus brand in the better sportswear area of department stores and allow us to drive sales growth over the longer term. To this end, we acquired, in December 2002, certain assets of privately held S.L. Danielle, which has provided Chaus with new capabilities in the exclusive and private label arena, as well as entry into the moderate and mass markets segments of the women's clothing market. We view this as an exciting platform for growth and a means to diversify our revenue base through expansion into new distribution channels. While this business generally carries a lower gross margin, we are enthusiastic about its potential to augment sales and earnings over the long term. Our revenues for fiscal 2003 included an initial contribution from the new product lines, and, with S.L. Danielle now fully integrated into our operations, we anticipate a further contribution in fiscal 2004.

Looking forward, we will continue to leverage the efficient infrastructure we now have in place and build on the addition of S.L. Danielle. At the same time, we plan to invest in efforts designed to expand the distribution of the Josephine Chaus brand, which has a strong customer following that appreciates the design and high quality our label stands for. However, there is no question that the department store channel remains difficult, with lower customer traffic, heightened promotional activity, and increasing competition. This is particularly true for the better segment, where a handful of well-known designers and brands will enter the area for spring 2004. We are therefore evaluating a number of strategies to enhance our brand's market position. Our objective is to continue to work closely with our department store customers in order to maintain our presence in existing department stores doors as well as enter new doors. Toward this end, we are planning to take advantage of select advertising/marketing opportunities and make an additional investment in personnel to enable us to devote specific attention and expertise to reinforcing the Josephine Chaus brand. We will also consider opportunities to make additional complementary acquisitions that further enhance our growth prospects.

In conclusion, we would like to thank all of our employees for their hard work and dedication, which translated into the strong results we achieved in fiscal 2003. To our retail partners, we look forward to our continued collaboration in delivering high quality, highly appealing products to your shoppers. And to our shareholders, we thank you for your support and will keep you updated on our progress in positioning Chaus for continued success over the long term.



Josephine Chaus
Chairwoman of the Board,
Chief Executive Officer



Nicholas DiPaolo
Vice Chairman of the Board,
Chief Operating Officer

FINANCIAL INFORMATION

(Dollars in thousands)

CONDENSED CONSOLIDATED BALANCE SHEETS

	2003	June 30, 2002	2001
Cash and cash equivalents	\$ 2,650	\$ 150	\$ 183
Accounts receivable, net	19,996	20,586	23,688
Inventories, net	10,696	8,050	13,582
Prepaid expenses and other current assets	719	1,331	1,051
Total current assets	34,061	30,117	38,504
Fixed assets and other assets, net	4,391	5,574	6,291
Goodwill	1,395		
Total assets	<u>\$ 39,847</u>	<u>\$ 35,691</u>	<u>\$ 44,795</u>
Revolving credit borrowings	\$ —	\$ 3,591	\$ 5,024
Accounts payable and accrued expenses	16,908	12,997	17,295
Term loan – current	1,500	1,125	1,000
Total current liabilities	18,408	17,713	23,319
Deferred rent	455	390	297
Term loan	7,875	9,375	10,500
Total liabilities	26,738	27,478	34,116
Total stockholders' equity	13,109	8,213	10,679
Total liabilities and stockholders' equity	<u>\$ 39,847</u>	<u>\$ 35,691</u>	<u>\$ 44,795</u>
Current ratio	1.9	1.7	1.7

FINANCIAL INFORMATION

(In thousands, except share and per share amounts)

CONSOLIDATED STATEMENTS OF OPERATIONS

	<i>Fiscal Year Ended June 30,</i>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales	\$ 140,225	\$ 145,769	\$ 149,499
Cost of goods sold	<u>104,398</u>	<u>116,951</u>	<u>122,324</u>
Gross profit	35,827	28,818	27,175
Selling, general and administrative expenses	<u>29,634</u>	<u>30,130</u>	<u>32,666</u>
Income (loss) from operations	6,193	(1,312)	(5,491)
Other income	—	(193)	—
Interest expense, net	<u>1,091</u>	<u>2,049</u>	<u>2,121</u>
Income (loss) before income tax provision (benefit)	5,102	(3,168)	(7,612)
Income tax provision (benefit)	<u>425</u>	<u>(944)</u>	<u>11</u>
Net income (loss)	<u>\$ 4,677</u>	<u>\$ (2,224)</u>	<u>\$ (7,623)</u>
Basic earnings (loss) per share — basic	<u>\$ 0.17</u>	<u>\$ (0.08)</u>	<u>\$ (0.28)</u>
Basic earnings (loss) per share — diluted	<u>\$ 0.16</u>	<u>\$ (0.08)</u>	<u>\$ (0.28)</u>
Weighted average number of common shares outstanding — basic	<u>27,384,000</u>	<u>27,216,000</u>	<u>27,216,000</u>
Weighted average number of common and common equivalent shares outstanding — diluted	<u>29,912,000</u>	<u>27,216,000</u>	<u>27,216,000</u>

DIRECTORS AND EXECUTIVE
OFFICERS

Josephine Chaus

*Chairwoman of the Board and Chief
Executive Officer*

Nicholas DiPaolo

*Vice Chairman of the Board and
Chief Operating Officer*

Greg Mongno

President

Barton Heminover

Chief Financial Officer

Philip G. Barach

*Director, former Chief Executive Officer
of U.S. Shoe Corp.*

S. Lee Kling

*Director, Chairman of the Board of
The Kling Company*

Harvey M. Krueger

*Director, Vice Chairman of
Lehman Brothers, Inc.*

STOCKHOLDER INFORMATION

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