

# JoSEPHINE CHAUS

2004 Annual Report

Bernard Chaus, Inc.

## TO OUR SHAREHOLDERS:

In fiscal year 2004, we continued to take steps to position our Company for long-term profitable growth. As the result of acquisitions we have made in the past two years, we have in place an attractive portfolio of businesses serving diverse segments of the women's apparel marketplace, from Josephine Chaus in better sportswear to Cynthia Steffe in upscale, modern women's clothing to S.L. Danielle in moderate and private label apparel. Our strategy is focused on managing each of these businesses to its full potential, and, in doing so, delivering long-term growth and increased value for our shareholders.

For fiscal year 2004, we reported an increase in net revenue of 12.5% to \$157.1 million from \$140.2 million in fiscal year 2003 as the result of the contributions of the S.L. Danielle and Cynthia Steffe businesses. Net income for the year was \$3.1 million, or \$0.10 per diluted share, compared to \$4.7 million, or \$0.16 per diluted share, in fiscal year 2003. The lower net income was attributable to reduced sales of our Josephine Chaus clothing, coupled with higher operating costs, including expenses related to operating the Cynthia Steffe business acquired in January 2004 and a full twelve months of expenses associated with operating the S.L. Danielle business acquired in December 2002.

The diversification of our business base over the past two years has marked a significant evolution in our long-term strategy. Since 1975, when the Company was founded, we had focused on a single brand – Chaus – marketed primarily through the department store channel. However, as the apparel marketplace became increasingly segmented over time, it became clear that the Company and its shareholders would be best served through expansion into new markets and distribution channels that would complement our core Chaus business, while providing new avenues for growth. The acquisitions of S.L. Danielle and Cynthia Steffe have been important steps forward in this regard and each provides strong platforms for the future.

Since acquiring S.L. Danielle, we have expanded this division significantly, capitalizing on increased demand within the moderate segment of the apparel marketplace. S.L. Danielle clothing is sold under a number of brand labels and is distributed through some of the largest retailers in the country. We continue to differentiate ourselves through our ability to combine excellent product quality and design with outstanding value, and we see significant opportunities to continue to grow this division, both by expanding our volume of business with existing customers and attracting new ones.

The acquisition of Cynthia Steffe has given us entrée into the upscale, modern women's clothing market – a growing segment that has performed well in recent years. The Cynthia Steffe brand has established a strong following among fashion-oriented, young women, and we look forward to building on this solid base through a targeted growth strategy. The brand is currently carried in upscale department stores, such as Saks Fifth Avenue and Neiman Marcus, and specialty stores. Our objective is to expand our presence within existing customer accounts and selectively broaden our distribution, while maintaining the exclusivity and upscale orientation of the line.

In tandem with pursuing these new growth opportunities, we have also worked to reposition our Josephine Chaus line. Just a few years ago, Josephine Chaus was among

the most prominent brand names in the better area of department stores. However, most recently, performance has declined as department stores re-allocated floor space in favor of more casual and contemporary offerings. We recognized that to restore growth we needed to update and re-define the Josephine Chaus line to better appeal to today's consumer. Over the past year, we have moved forward in implementing a series of changes, including design, merchandising and branding initiatives.

At the heart of these changes is a commitment to our customers to make it easier to get dressed, no matter what the occasion. While we will continue to provide the professional and polished classics for which we are known, we have introduced greater versatility to the line in order to better meet our customers' needs. We recognize that women today are playing an increasing number of roles successfully, requiring clothing that can take them from day to night, from the office to the playground and out on the weekends. Our new presentation, therefore, strikes a balance between casual and professional, while emphasizing high quality, washability and wearability, all of which are critical to our target customer. We are particularly excited about our new "Simply Eight" signature line, a core group of eight clothing essentials within the Josephine Chaus label that can be coordinated together or worn on their own, providing the consumer with versatility but also an opportunity to express her own individual style.

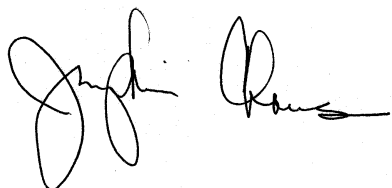
Coupled with these design and merchandising initiatives, we have also launched a new branding campaign. Based on independent research conducted earlier this year, we are updating and better defining the Josephine Chaus brand, so that it has a clear identity in the marketplace. The campaign builds on the historic strengths of the line – including its reputation for high quality clothing at affordable price points – while injecting a fresh, modern perspective. In addition, as part of the brand's repositioning, Josephine Chaus is now playing a more visible role in the brand's definition. As a working mother, Josephine personifies the busy lifestyle led by our customers, and she is assuming a more public role as the brand's principal spokesperson.

During the September Fashion Week in New York, we introduced these changes to our retail customers. We are encouraged by their initial reception and optimistic that the repositioning of the line will provide the necessary catalyst to restore growth at this division. We believe that as our department store customers continue to work to differentiate their product selection and take market share, we have a valuable role to play as a partner and resource offering a compelling merchandise assortment at a terrific value.

As we look to fiscal 2005, we are excited about the future. We are managing our three businesses to capitalize on their individual potential, while taking advantage of a shared infrastructure to maximize operating efficiencies. We will also continue to evaluate opportunities to further enhance our business mix.

One of our greatest strengths in executing our strategy is our talented team of employees. We thank each of them for their hard work in fiscal 2004. In addition, we extend our deepest appreciation to our customers and business partners. To you, our

shareholders, you have our commitment that we will continue to move forward to enhance the value of your investment. Thank you for your continued support.



Josephine Chaus  
Chairwoman of the Board,  
Chief Executive Officer

September 24, 2004



Nicholas DiPaolo  
Vice Chairman of the Board,  
Chief Operating Officer

#### *Forward Looking Statements*

*Certain statements contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that have been made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are indicated by words or phrases such as “anticipate,” “estimate,” “project,” “expect,” “believe” and similar words or phrases. Such statements are based on current expectations and are subject to certain risks, uncertainties and assumptions, including, but not limited to, the overall level of consumer spending on apparel; the financial strength of the retail industry, generally and the Company’s customers in particular; changes in trends in the market segments in which the Company competes and the Company’s ability to gauge and respond to changing consumer demands and fashion trends; the level of demand for the Company’s products; the Company’s dependence on its major department store customers; the success of the Company’s design, merchandising and branding initiatives for its Josephine Chaus line, the highly competitive nature of the fashion industry; the Company’s ability to satisfy its cash flow needs by meeting its business plan and satisfying the financial covenants in its credit facility; and changes in economic or political conditions in the markets where the Company sells or sources its products, as well as other risks and uncertainties set forth in the Company’s publicly-filed documents, including the Annual Report on Form 10-K. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

## FINANCIAL INFORMATION

(Dollars in thousands)

### CONDENSED CONSOLIDATED BALANCE SHEETS

	2004	<i>June 30,</i> 2003	2002
Cash and cash equivalents	\$ 137	\$ 2,650	\$ 150
Accounts receivable, net	28,803	19,996	20,586
Inventories, net	8,673	10,696	8,050
Prepaid expenses and other current assets	<u>952</u>	<u>719</u>	<u>1,331</u>
Total current assets	38,565	34,061	30,117
Fixed assets and other assets, net	4,554	4,391	5,574
Trademarks	1,000	—	—
Goodwill	<u>2,257</u>	<u>1,395</u>	<u>—</u>
Total assets	<u>\$ 46,376</u>	<u>\$ 39,847</u>	<u>\$ 35,691</u>
Revolving credit borrowings	\$ 8,563	\$ —	\$ 3,591
Accounts payable and accrued expenses	11,111	16,346	12,727
Term loan – current	<u>1,700</u>	<u>1,500</u>	<u>1,125</u>
Total current liabilities	21,374	17,846	17,443
Term loan	7,325	7,875	9,375
Long term liabilities	897	1,017	660
Deferred income taxes	<u>81</u>	<u>—</u>	<u>—</u>
Total liabilities	29,677	26,738	27,478
Total stockholders' equity	<u>16,699</u>	<u>13,109</u>	<u>8,213</u>
Total liabilities and stockholders' equity	<u>\$ 46,376</u>	<u>\$ 39,847</u>	<u>\$ 35,691</u>
Current ratio	1.8	1.9	1.7

## FINANCIAL INFORMATION

(Dollars in thousands, except share and per share amounts)

### CONSOLIDATED STATEMENTS OF OPERATIONS

	<i>Fiscal Year Ended June 30,</i>		
	2004	2003	2002
Net revenue	\$ 157,107	\$ 140,225	\$ 145,769
Cost of goods sold	<u>117,451</u>	<u>104,398</u>	<u>116,951</u>
Gross profit	39,656	35,827	28,818
Selling, general and administrative expenses	<u>34,894</u>	<u>29,634</u>	<u>30,130</u>
Income (loss) from operations	4,762	6,193	(1,312)
Other income	—	—	(193)
Interest expense, net	<u>1,355</u>	<u>1,091</u>	<u>2,049</u>
Income (loss) before income tax provision (benefit)	3,407	5,102	(3,168)
Income tax provision (benefit)	<u>303</u>	<u>425</u>	<u>(944)</u>
Net income (loss)	<u>3,104</u>	<u>\$ 4,677</u>	<u>\$ (2,224)</u>
Basic earnings (loss) per share	<u>\$ 0.11</u>	<u>\$ 0.17</u>	<u>\$ (0.08)</u>
Diluted earnings (loss) per share	<u>0.10</u>	<u>\$ 0.16</u>	<u>\$ (0.08)</u>
Weighted average number of common shares outstanding – basic	<u>27,504,000</u>	<u>27,384,000</u>	<u>27,216,000</u>
Weighted average number of common and common equivalent shares outstanding – diluted	<u>30,490,000</u>	<u>29,912,000</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*

**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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