poised for growth

2005 annual report

dressbarn, inc.

dressbarn, inc.

dressbarn, inc. is now over $1 billion dollars in annual sales with almost 1,300 stores and two strong, complementary brands, **dressbarn** and **maurices**. We continue to realize synergizes, update our merchandise offerings, develop compelling lifestyle brands and enhance our affinity with our customers while providing a high degree of customer service and growth potential for our 13,000 Associates.

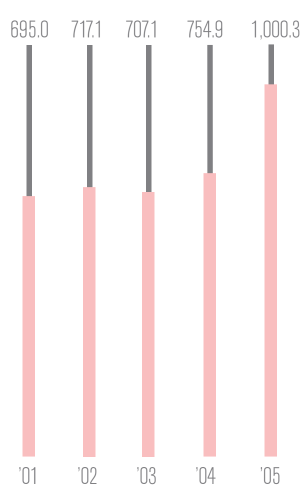
dressbarn is a national chain of almost 800 specialty stores in 46 states with greater penetration in the Northeast, featuring proprietary career and casual fashions with high-perceived value for the working woman. **dressbarn's** strategic emphasis on: delivering current styles at affordable prices, building the emotional connection to the brand and focusing on customer service sets us apart from other specialty apparel retailers in our markets.

Acquired in January 2005, **maurices**, a national chain of 500 stores in 39 states with a concentration in the Midwest, is a fashion retailer offering trendy and casual apparel to our customer with a 20-something attitude. With a mission of being "the best small town specialty retailer," **maurices** is the fashion destination in its communities offering excellent customer service. Our **maurices** division will continue to grow at a rapid rate in the future.

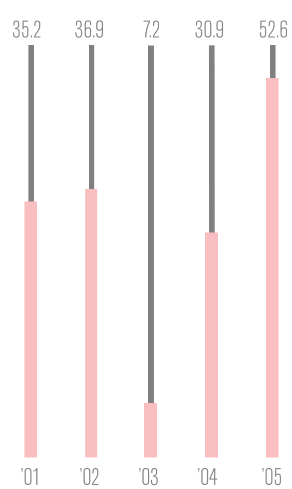
2005 Financial Highlights

Fiscal Year	2005	2004	2003
Operating Results			
Net sales	**$1,000,264,000**	$754,903,000	$707,121,000
Income before taxes	**85,760,000**	45,473,000	11,222,000
Net earnings	**52,560,000**	30,932,000	7,183,000
Net earnings as a percent of net sales	**5.3%**	4.1%	1.0%
Net earnings per share—diluted	**$1.72**	$1.03	$0.22
Financial Position			
Working capital	**$ 27,395,000**	$153,106,000	$126,138,000
Current ratio	**1.1**	1.9	1.8
Total assets	**716,245,000**	489,316,000	449,787,000
Shareholders' equity	**313,128,000**	252,958,000	217,421,000
Return on average shareholders' equity	**18.6%**	13.2%	2.6%
Number of stores at end of fiscal period	**1,272**	776	772
Total store square footage	**8,231,000**	5,724,000	5,655,000

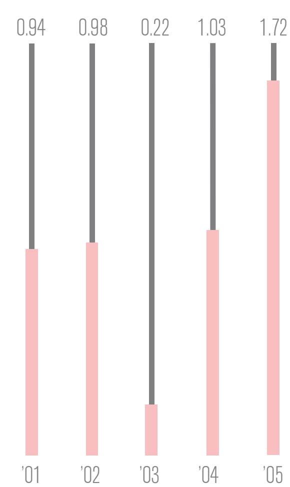
Net Sales
(dollars in millions)



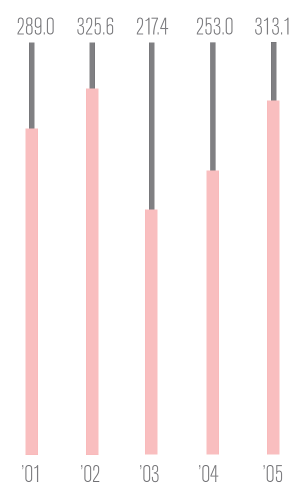
Net Earnings
(dollars in millions)



Earnings Per Share
(diluted)



Shareholders' Equity
(dollars in millions)



To Our Shareholders:

We are pleased to report that Fiscal 2005 was a year highlighted by several noteworthy achievements. Through the reinvigoration of **dressbarn** and the acquisition of **maurices**, we have renewed energy and are poised for growth in 2006. Our positive performance was enhanced by the diligent execution of our business strategies, and the acquisition of **maurices** providing a new avenue for sales and profit growth.

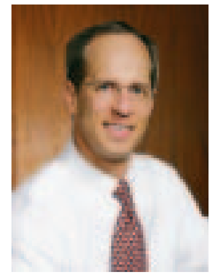
Fiscal 2005 revenues totaled $1.0 billion, up 33% over Fiscal 2004, and earnings per share increased 67% to $1.72. Fiscal 2005 earnings were favorably impacted by a reversal of a litigation reserve related to our successful appeal of a $32 million judgment discussed below, and unfavorably impacted by certain expenses, including the write-off of unamortized bank fees due to early repayments under a term loan discussed below, and Sarbanes Oxley compliance costs. Excluding these items, our diluted earnings per share would have been $1.18 in Fiscal 2005. Earnings in Fiscal 2004 were favorably impacted by a 53rd week and reversal of tax reserves. Excluding these items, our diluted earnings per share would have been $0.90 for Fiscal 2004. We also increased our comparable store sales by 5%. These results exceeded our key corporate objectives for 2005.

In January 2005, we acquired **maurices, inc.**, a nearly 500-store, small town, specialty apparel retailer that targets the 17-34 year old customer. **maurices**' combination of fashion, value and service, along with its attractive consumer demographic, positions the brand as a prime growth vehicle. The results to date have substantially surpassed our projections.

We were pleased with the results generated in Spring 2005; in particular, our plus size business has significantly outperformed our plans. **dressbarn** remains focused on our fundamental 30-55 year old core customer, a segment recently identified as a growth opportunity in the more upscale specialty retail arena. When reviewing the competitive landscape, we believe that our continued concentration and execution of this long-term strategy serves as a key differentiator for **dressbarn**. Furthermore, the addition of **maurices**, which shares similar core values to its sister brand, complements and augments the **dressbarn** business through its small town real estate strategy and younger target customer.

The Company's financial strength was demonstrated by our ability to raise the necessary capital from our banking and financial markets for the acquisition of **maurices**. The Company secured a $100 million term loan and $115 million of 2½% Convertible Senior Notes.

Elliot S. Jaffe
Co-Founder and
Chairman



David R. Jaffe
President and
Chief Executive Officer

Our financial strength was further enhanced during the year by our successful appeal and unanimous decision by the Connecticut Supreme Court on the reversal of a previous $32 million judgment. The release of the $41 million previously in escrow, along with our strong operating results, has enabled our Company to pay off the $100 million term loan in its entirety.

We spent substantial money this year on Company audit fees. We are disappointed that Sarbanes Oxley compliance was not achieved during Fiscal 2005 and we are continuing to work diligently towards complete compliance.

Looking to the future, we continue to refine our strategies and explore new opportunities to maximize shareholders' value.

Our merchandising efforts at both **dressbarn** and **maurices** continue to show strong improvement. We are constantly working to upgrade the quality and fashion sensibility of our product offering while maintaining our moderate pricing, thereby increasing our value proposition. At **dressbarn**, product newness and feminine fashion satisfy our customers' lifestyles and attitudes, both career and casual, daytime to evening. All of these elements are key to satisfying our existing customers as well as attracting a new, younger customer. At **maurices**, we remain customer obsessed by creating lifestyle shops for both casual and dressy. The broad assortment of trendy and fashion basic product allows our 20-something customers the flexibility to show their individuality.

We continue to enhance our marketing initiatives in both businesses as well. **dressbarn** is successfully creating brand awareness through national magazine advertising, direct mail, public relations and in-store promotions to communicate our new, more feminine, distinctive point of view as a specialty store retailer. Furthermore, through our focus on Customer Relationship Marketing, we are cognizant of our customers' behavior, tailoring programs based upon her needs and desires, and driving traffic and increased conversion in our stores. At **maurices**, we continue to test new programs through store presentation, direct mail and loyalty programs. In both brands, we continue to build the cause related marketing initiatives that resonate with the customers in our communities, creating strong company affinity. We remain focused on programs to enhance our proprietary credit card penetration, and believe there is additional opportunity to increase our productive gift card business.

For both **dressbarn** and **maurices**, being an active, dedicated member of the community is critical to our success. We take pride in being good community citizens. Last year, we had nearly 300 Relay for Life walk-a-thon teams supporting the American Cancer Society. Over the past three years, the joint initiatives of **dressbarn, inc.** and the Jaffe Family Foundation have contributed nearly $2 million to the American Cancer Society.

As a result of Hurricanes Katrina and Rita, **dressbarn** had significant damage in six stores and had numerous Associates affected by the devastation. To help both the Gulf Coast residents as well as our own people in those areas, the Company immediately rallied with support in multiple ways: $3 million in clothing was donated; Associate contributions to the American Red Cross or Salvation Army were double matched by the Jaffe Family Foundation; Associates who had been displaced and, as a result, temporarily living in other areas, were guaranteed a job in a local **dressbarn** store; the Associate Fund was created to allow **dressbarn** and **maurices** Associates to make contributions to support their colleagues, some even donating vacation day pay; and lastly, our Sunshine Fund disseminated monies to help members of our family who were in need.

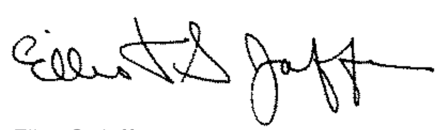
Through the acquisition of **maurices**, our primary real estate focus is expansion into new markets as well as testing outlet locations; both represent significant growth opportunities. At **dressbarn**, we continue to replace and selectively open new stores, remodel existing, older stores and divest ourselves of those that are under-performing.

High caliber, friendly customer service is critical to our success and inherent to our core values. To this end, we remain committed to refining and upgrading Store Associate hiring, training, and recognition programs. Understanding the impact of customer service as a key differentiating factor when choosing where to shop, we continue to focus on the customer and developing programs to enhance her experience.

The integration of our **maurices** partners and its experienced executive team into the **dressbarn** family has been seamless. Also, we welcome a new addition to our corporate team; Gene L. Wexler has joined us as Senior Vice President, General Counsel for the Dress Barn, Inc., and, along with the rest of the executive team, will help lead us into the future.

We are pleased with our results for the 2005 fiscal year and are poised for strong growth ahead. We will continue to make improvements to our **dressbarn** business, which includes ongoing remodeling of our stores as well as continued enhancements to our marketing and merchandising efforts. The acquisition of **maurices** has given us new opportunity for growth through increased sales and the realization of synergies which should continue to improve our profitability. We are exceptionally pleased with the substantial cash flow we are generating and our rapid reduction of debt, which will enable us to pursue a variety of strategic alternatives for the development of our business going forward. As a company, we are in a favorable position to continue to generate positive returns on invested capital and we are committed to delivering value to our shareholders both in the short term and well into the future.

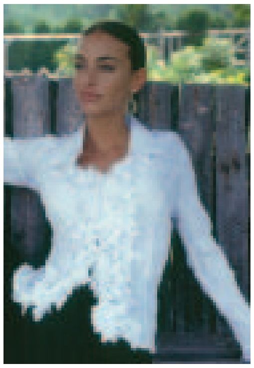
We are extremely grateful to our 13,000 Associates for their hard work, dedication, and tireless efforts over the past year. Our Associates are the strength of our organization and continue to be the driving force behind our success. To our shareholders, suppliers, and customers, we are appreciative of your support as we move into the next exciting phase of our continued growth.



Elliot S. Jaffe
Co-Founder and Chairman

David R. Jaffe
President and Chief Executive Officer

at **dressbarn**, we . . .



• continuously upgrade the quality and contemporary styling of our merchandise to be current while maintaining high perceived value…

• create brand awareness through national magazine advetising, public relations, direct mail and in-store promotions that communicate our new, more feminine, distinctive personality…

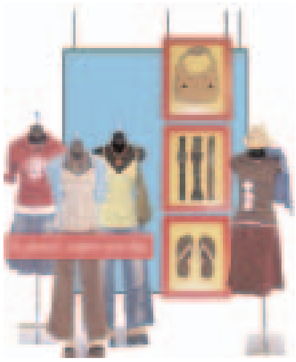
• enhance customer affinity through our **dressbarn** credit card and preferred customer loyalty programs…

• ensure friendly customer service that builds strong relationships…

• cultivate cause-related initiatives that demonstrate that **dressbarn** has a heart. Our commitment to Lela and Relay for Life with the American Cancer Society, as well as helping women take their first steps towards self-sufficiency through Dress For Success, connect us to our communities.

at maurices, we . . .

• create trendy casual and dressy fashion lifestyle shops with a compelling value proposition that address the attitudes of our 20-something customers…



• develop strong marketing promotions, dynamic visual store presentation and editorial coverage through public relations, tailored to drive sales…

• create customer loyalty through our **maurices** credit card and our *Take Ten* and *Get Connected* customer loyalty programs…

• nurture a friendly organization that is "customer obsessed" and dedicated to the needs of its shopping community…

• develop passionate relationships within our neighborhoods through our very own community support program, Hometown Pride, as well as through Relay For Life and the American Cancer Society.

Selected Financial Data

In thousands, except earnings per share and store operating data

Fiscal Year Ended	**July 30, 2005(3)**	July 31, 2004, (as restated)(4)	July 26, 2003	July 27, 2002	July 28, 2001
Net sales	**$1,000,264**	$754,903	$ 707,121	$ 717,136	$695,008
Cost of sales, including occupancy and buying costs	**621,656**	472,198	451,579	452,216	440,817
Gross profit	**378,608**	282,705	255,542	264,920	254,191
Selling, general and administrative expenses	**286,751**	212,477	194,005	188,056	182,598
Depreciation and amortization	**34,457**	23,197	22,262	24,631	25,146
Litigation (2)	**(35,329)**	3,329	32,000	—	—
Operating income	**92,729**	43,702	7,275	52,233	46,447
Interest income	**1,735**	2,204	3,332	5,458	8,949
Interest expense	**(10,230)**	(1,959)	(164)	—	—
Other income	**1,526**	1,526	779	—	—
Earnings before income taxes	**85,760**	45,473	11,222	57,691	55,396
Income taxes	**33,200**	14,541	4,039	20,769	20,219
Net earnings	**$ 52,560**	$ 30,932	$ 7,183	$ 36,922	$ 35,177
Earnings per share—basic (1)	**$1.76**	$1.05	$0.23	$1.01	$0.96
Earnings per share—diluted (1)	**$1.72**	$1.03	$0.22	$0.98	$0.94
Balance sheet data:					
Working capital	**$ 27,395**	$153,106	$126,138	$234,576	$201,241
Total assets	**$ 716,245**	$489,316	$ 449,787	$ 487,838	$434,082
Long-term debt	**$ 155,900**	$ 31,988	$ 33,021	$ —	$ —
Shareholders' equity	**$ 313,128**	$252,958	$ 217,421	$325,642	$289,005
Percent of net sales:					
Cost of sales, including occupancy and buying costs	**62.1%**	62.6%	63.9%	63.1%	63.4%
Gross profit	**37.9%**	37.4%	36.1%	36.9%	36.6%
Selling, general and administrative expenses	**28.7%**	28.1%	27.4%	26.2%	26.3%
Litigation	**(3.5)%**	0.4%	4.5%	—	—
Operating income	**9.3%**	5.8%	1.0%	7.3%	6.7%
Net earnings	**5.3%**	4.1%	1.0%	5.1%	5.1%

(1) All earnings per share amounts reported above reflect the effect of the 2-for-1 stock split, distributed May 31, 2002.

(2) See Note 7 to the consolidated financial statements.

(3) Includes the impact of the acquisition of Maurices Incorporated. See Note 2 to the consolidated financial statements.

(4) See Note 3 to the consolidated financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and related notes thereto included in this Annual Report. Fiscal 2005 refers to our fiscal year ended July 30, 2005, Fiscal 2004 refers to our fiscal year ended July 31, 2004, and Fiscal 2003 refers to our fiscal year ended July 26, 2003. Fiscal 2005 and Fiscal 2003 were 52-week periods. Fiscal 2004 was a 53-week period. Fiscal 2006 refers to our fiscal year that will end on July 29, 2006. For certain comparisons, we compare Fiscal 2005 results to the 52-week period ended July 24, 2004 (Fiscal 2004 less the 53rd week).

Forward-Looking Statements

This Annual Report, including the sections labeled Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that should be read in conjunction with the consolidated financial statements and notes to consolidated financial statements that we have included elsewhere in this report. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in, or contemplated by, the forward-looking statements. We generally identify these statements by words or phrases such as "believe," "anticipate," "expect," "intend," "plan," "may," "should," "estimate," "predict," "potential," "continue" or the negative of such terms or other similar expressions. Our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed below under the heading "Business—Risk Factors Related to our Business," and other factors discussed in the Annual Report on Form 10-K and other reports we filed with the Securities and Exchange Commission. We disclaim any intent or obligation to update or revise any forward-looking statements as a result of developments occurring after the period covered by this report or otherwise.

Restatement of Financial Statements

We concluded that our Consolidated Financial Statements should be restated. These corrections did not affect the net increase or decrease in cash and cash equivalents and had no impact on the Company's consolidated balance sheets, net earnings, consolidated statement of shareholders' equity and comprehensive income, and earnings per share. See Note 3 to the consolidated financial statements of this Annual Report for details of the restatements. The following Management's Discussion and Analysis gives effect to the restatement.

Overview

We operate a chain of primarily women's apparel specialty stores, operating principally under the names "**dressbarn**" and "**dressbarn woman**" and, since our January 2005 acquisition of Maurices Incorporated, "**maurices**." Our **dressbarn** stores are operated mostly in a combination of **dressbarn** and **dressbarn woman** stores, or Combo stores, which carry **dressbarn** and larger-sized **dressbarn woman** merchandise, as well as freestanding **dressbarn** and **dressbarn woman** stores. These stores offer in-season, moderate to better quality career and casual fashion to the working woman at value prices. Our **maurices** stores are concentrated in small markets in the United States and their product offerings are designed to appeal to the apparel and accessory needs of the 17 to 34 year-old-woman and, to a lesser extent, the casual apparel needs of the 17 to 34 year-old-male.

The retail environment remains very competitive. With the acquisition of Maurices Incorporated, we have diversified our core business and believe it will improve our future growth potential. The addition of **maurices** will allow us to broaden our demographic reach and diversify our retail base. We expect to continue our strategy of opening new stores while closing under-performing locations. Store expansion will focus on both expanding in the Company's major trading markets and developing and expanding into new domestic markets. For Fiscal 2006 we are currently projecting net square footage growth in the mid single-digit percentage range. Hurricane Katrina caused extensive damage to portions of the southeast United States, including areas where certain of the Company's retail stores are located. The Company carries property and casualty insurance with deductibles on its retail store locations, and is currently assessing the impact of the hurricane on its stores located within the affected areas as well as actions it may take with respect to its affected associates, its business, and other consequences of the hurricane. We do not believe that the related costs will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Management uses a number of key indicators of financial condition and operating performance to evaluate the performance of our business, including the following:

	Fiscal Year Ended		
	July 30, 2005	July 31, 2004	July 26, 2003
Net sales growth	**32.5%(1)**	6.8%	(1.4)%
Comparable store sales growth	**5.0%**	1.9%	(4.6)%
Merchandise margins	**54.4%**	55.1%	54.7%
Square footage growth	**25.6%(1)**	2.9%	4%
Total store count	**1,272(1)**	776	772
Diluted earnings per share	**$1.72**	$1.03	$0.22
SG&A as a percentage of sales	**28.7%**	28.1%	27.4%
Capital expenditures (in millions)	**$31.4**	$33.9	$67.1

(1) Increase mainly due to the acquisition of Maurices Incorporated in January 2005

Our methodology for determining same store sales is calculated based on the sales of stores open throughout the full period and throughout the full prior period (including stores relocated within the same shopping center and stores with minor square footage changes). If a single-format store is converted into a Combo store, the additional sales are not included in the calculation of same store sales. The determination of which stores are included in the same store sales calculation only changes at the beginning of each fiscal year except for stores that close during the fiscal year which are excluded from same store sales beginning with the fiscal month the store actually closes. **maurices** same store sales were calculated in the same manner as **dressbarn** using historical pre-acquisition data as comparison.

We include in our cost of sales line item all costs of merchandise (net of purchase discounts and vendor allowances), freight on inbound, outbound and internally transferred merchandise, merchandise acquisition costs, (primarily commissions and import fees), all occupancy costs excluding depreciation and all costs associated with our buying and distribution functions. Our cost of sales and gross profit may not be comparable to those of other entities, since some entities include all costs related to their distribution network and all buying and occupancy costs in their cost of sales, while other entities like us exclude a portion of these expenses from cost of sales and include them in selling, general and administrative expenses or depreciation.

During the fourth quarter, we concluded that we should disclose reportable segments to reflect the impact of our acquisition of Maurices Incorporated. We believe that **maurices** is a reportable segment due management's review of **maurices**' separately available operating results and other financial information to regularly assess their performance for decision-making purposes. **maurices** is discussed separately in the following Management's Discussion and Analysis, as appropriate.

Results of Operations

The table below sets forth certain financial data of the Company expressed as a percentage of net sales for the periods indicated:

	Fiscal Year Ended		
	July 30, 2005	July 31, 2004	July 26, 2003
Net sales	**100.0%**	100.0%	100.0%
Cost of sales, including occupancy and buying costs	**62.1%**	62.6%	63.9%
Selling, general and administrative expenses	**28.7%**	28.1%	27.4%
Depreciation and amortization	**3.4%**	3.1%	3.1%
Litigation	**(3.5)%**	0.4%	4.5%
Interest income	**0.2%**	0.3%	0.5%
Interest expense	**(1.0)%**	(0.3)%	—
Earnings before income taxes	**8.6%**	6.0%	1.6%
Net earnings	**5.3%**	4.1%	1.0%

Fiscal 2005 Compared to Fiscal 2004

Net Sales

Our results for Fiscal 2005 were favorably impacted by the acquisition of Maurices Incorporated in January 2005. Net sales increased by 32.5% to $1 billion in Fiscal 2005, from $755 million in Fiscal 2004. The following table details the net sales by brand;

(Amounts in millions, except comparable store sales % increases)	**Fiscal 2005** Net Sales	**Fiscal 2005** Comparable store sales % increase	Fiscal 2004 Net Sales	Fiscal 2004 Comparable store sales % increase
dressbarn and **dressbarn woman** brands	**$ 788.2**	**5%**	$754.9	2%
maurices brand	**212.1**	**4%**	—	—
Total Company	**$1,000.3**	**5%**	$754.9	2%

The net sales increase from fiscal 2004 was mainly due to the accretive impact of the acquisition of Maurices Incorporated coupled with a 5.0% increase in total company same store sales. Same store sales are the primary means most retailers use to evaluate their sales performance. The same store sales increase was the result of several factors, including increased customer traffic to our stores and more customer transactions. We believe the increase in the number of customer transactions was the result of continuing customer acceptance of our more updated and fashionable merchandise assortment and intensified marketing and store presentation efforts. Among the categories that helped increase net sales were jewelry, knitwear, blouses, and woven tops.

Gross Profit

Gross profit (net sales less cost of goods sold, including occupancy and buying costs), increased 33.9% to $378.6 million, or 37.9% of net sales, in Fiscal 2005 from $282.7 million, or 37.4% of net sales in Fiscal 2004. The increase in gross profit as a percentage of net sales is due to increased sales in higher margins categories such as jewelry, the leverage on buying costs gained from the acquisition of Maurices Incorporated and increased same store sales. Excluding the fifty-third week from Fiscal 2004, gross profit would have been $276.9 million, or 37.3% of net sales.

SG&A

Selling, general and administrative (SG&A) expenses increased to $286.8 million, or 28.7% of net sales in Fiscal 2005 from $212.5 million or 28.1% of net sales in Fiscal 2004. Excluding the fifty-third week from Fiscal 2004, SG&A would have been $209.2 million, or 28.1% of net sales. The increase of 60 basis points was primarily driven by an increase in management incentive compensation and increased costs associated with Sarbanes-Oxley compliance. We continue to focus on controlling our costs and enhancing productivity, which we believe will improve SG&A expense as a percentage of sales in the future.

Depreciation and Amortization

Depreciation expense increased to $34.5 million in Fiscal 2005, versus $23.2 million in Fiscal 2004. The increase was largely the result of the acquisition of Maurices Incorporated in January 2005.

Litigation

As a result of the Supreme Court of Connecticut's decision to reverse an approximately $32 million jury verdict, the Company reversed the litigation charge incurred when the judgment was entered in Fiscal 2003. The judgment was subject to post-judgment interest at the rate of 10% per annum, which the Company accrued. Following the reversal of the judgment the escrow account established in connection with the appeal, which included the post-judgment interest, was released, resulting in $35.3 million of income to the Company, which included the interest paid into the escrow fund. Refer to Note 7 of the consolidated financial statements for further details of this litigation.

Interest Income

Interest income decreased to $1.7 million for Fiscal 2005 from $2.2 million for fiscal 2004. The decrease was due to the reduction of interest earned from investments in marketable securities, which were liquidated during Fiscal 2005. The proceeds from the sales of marketable securities were used in the acquisition of Maurices Incorporated.

Interest Expense

Interest expense for Fiscal 2005 was $10.2 million as compared to $1.9 million in Fiscal 2004. The increase is primarily due to the issuance of $115 million of 2.50% Convertible Senior Notes in December 2004 and borrowings under a Senior Secured Credit Facility. Refer to Note 5 to the consolidated financial statements. The remaining interest expense represents the mortgage interest from the financing of our Suffern facility in July 2003 (a 5.3% fixed rate over a 20 year term).

Other Income

Other income for Fiscal 2005 remained at $1.5 million, which is the same as Fiscal 2004. Other income represents income from unaffiliated tenants of our distribution/office facility in Suffern, New York.

Provision for Income Taxes

The effective tax rate for Fiscal 2005 was 38.7% versus 32.0% in Fiscal 2004. The increase in effective tax rate is mainly due to prior year favorable resolution of certain tax audits, which reduced the effective tax rate in Fiscal 2004. We also had less tax-free interest in Fiscal 2005 because of the sales of municipal bond investments, the proceeds of which were used in the acquisition of Maurices Incorporated. Our effective tax rate was also influenced by the reversal of the litigation charge in Fiscal 2005. Refer to Note 9 to the Consolidated Financial Statements for additional details of our income tax amounts.

Fiscal 2004 Compared to Fiscal 2003

Net Sales

Our results for Fiscal 2004 were favorably impacted by an extra reporting week. Net sales increased by 6.8% to $754.9 million for Fiscal 2004, from $707.1 million in Fiscal 2003. Net sales for the fifty-two week period ended July 24, 2004 were $743.2 million, an increase of $36.1 million or 5.1% from the prior year. The increase from Fiscal 2003 was due to a 1.9% increase in same store sales, as well as a 2.9% increase in average store square footage. Same store sales are the primary means most retailers use to evaluate their sales performance. Same store sales represented approximately 86% of total sales for Fiscal 2004. The increase in store square footage was due to the opening of 53 new stores, primarily combination **dressbarn/dressbarn woman** stores, which carry both **dressbarn** and **dressbarn woman** merchandise, offset in part by the square footage reduction from the closings of 47 underperforming stores. The Company had 776 stores in operation at July 31, 2004 compared to 772 stores in operation as of July 26, 2003.

The sales increase was the result of several factors. More customer traffic to its stores resulted in more customer transactions and higher sales associate productivity and increased jewelry sales resulted in increased units sold per transaction. These factors were partially offset by a slight decrease in the average price per transaction due primarily to an increase in jewelry sales. The Company believes the increase in the number of customer transactions was the result of greater customer acceptance of the Company's more updated and fashionable merchandise assortment and intensified marketing and store presentation efforts.

Gross Profit

Gross profit (net sales less cost of goods sold, including occupancy and buying costs) increased 10.6% to $282.7 million, or 37.4% of net sales, in Fiscal 2004 from $255.5 million, or 36.1% of net sales in Fiscal 2003. The increase in gross profit as a percentage of net sales is due to higher maintained margins, the leverage on buying costs gained from increased same store sales, and the leverage from the extra fifty-third week of net sales on fixed occupancy costs. For the fifty-two weeks, gross profit was 37.3% of net sales.

SG&A

Selling, general and administrative (SG&A) expenses increased by 9.5% to $212.5 million, or 28.1% of net sales, in Fiscal 2004 from $194 million or 27.4% of net sales, in Fiscal 2003. For the fifty-two weeks, SG&A increased by 8% to $209.6 million, or 27.8% of net sales from $194 million, or 27.4% of net sales last fiscal year. The increase of 40 basis points reflects lack of sales leverage, increased marketing expense, a higher number of closed stores (47 stores closed in Fiscal 2004 versus 28 stores closed in Fiscal 2003) and related write-offs ($4.9 million in Fiscal 2004 versus $1.5 million in Fiscal 2003), as well as increased costs associated with impending Sarbanes-Oxley compliance and training costs for the Company's new POS system. The Company continues to focus on controlling its costs and enhancing productivity.

Other Income

Other income for Fiscal 2004 increased 95.9% to $1.5 million from $0.8 million in Fiscal 2003. The Company received a full year's rent versus a partial year in Fiscal 2003 by Dunnigan Realty, LLC from the unaffiliated tenants of the Suffern facility. In January 2003, Dunnigan Realty, LLC, a wholly-owned subsidiary of the Company, acquired a distribution/office facility in Suffern, New York (the "Suffern facility"), of which the major portion is the Company's corporate offices and distribution center.

Depreciation and Amortization

Depreciation expense increased by 4.2% to $23.2 million in Fiscal 2004, versus $22.3 million in Fiscal 2003. The increase resulted from the first year depreciation of the new Point of Sale (POS) system, and the first full year of depreciation of the Company headquarters.

Litigation

The current year litigation amount of $3.3 million related to the accrual of interest under an escrow account established in connection with the appeal of a $32 million jury verdict against the Company. The judgment was subject to post-judgment interest at the rate of 10% per annum, which the Company accrued.

Interest Income

Interest income decreased by 33.9% to $2.2 million for Fiscal 2004 from $3.3 million for Fiscal 2003. The decrease was due primarily to a reduction in funds available for investment for most of the fiscal year after the purchase of the Company headquarters for $45.4 million in the fourth quarter of 2003, partially offset by an increase in interest rates.

Interest Expense

Interest expense for the fiscal year was $2.0 million. The interest expense mainly represents the mortgage interest from the financing of the Suffern facility in July 2003 (a 5.3% fixed rate over a 20 year term).

Provision for Income Taxes

The effective tax rate for Fiscal 2004 was 32.0% versus 36.0% in Fiscal 2003. The decrease resulted from the reversal of certain income tax reserves of approximately $2.0 million. Such reversal resulted from the Company finalizing certain pending tax audits.

Net Earnings

Net earnings for Fiscal 2004 increased to $30.9 million from $7.2 million in Fiscal 2003. Net earnings were favorably impacted by approximately $1.6 million or $0.05 per share by the extra reporting week in Fiscal 2004. Diluted earnings per share also increased to $1.03 per share versus $0.22 per share in Fiscal 2003. Diluted earnings in Fiscal 2003 were negatively impacted by a $32.0 million litigation charge (or $20.3 million or $0.64 per diluted share after tax). Operating income for Fiscal 2004 increased to $43.7 million from $7.3 million in Fiscal 2003. The change in operating income was primarily due to the $32.0 million litigation charge recorded in Fiscal 2003.

Liquidity and Capital Resources

We invested $328 million in connection with our acquisition on Maurices Incorporated in Fiscal 2005. The funds for this investment were raised by issuance of $115 million of convertible senior notes, $100 million borrowed under the Senior Credit Facility, as described in Note 5 to Consolidated Financial Statements and below, and the proceeds from the sale of marketable securities. As of July 30, 2005, we had repaid $90 million under the Senior Credit Facility. The outstanding balance of $10 million was repaid subsequent to July 30, 2005.

At July 30, 2005, the Company had cash, cash equivalents, restricted cash and marketable securities of $43 million as compared to $177 million as of July 31, 2004. The decrease in cash, cash equivalents, restricted cash and marketable securities was primarily driven by our investment in Maurices Incorporated.

Our cash, cash equivalents, and marketable securities are highly liquid investments and consist of term deposits and investments in money market funds with commercial banks and financial institutions, and municipal bonds that can readily be converted to cash. Working capital was $27 million at July 30, 2005. We also had $240 million available borrowing capacity at July 30, 2005 under the Senior Credit Facility.

Net cash provided by operations was $106 million for Fiscal 2005 compared with $58 million for Fiscal 2004. Cash flows from operating activities for the period were primarily generated by net earnings of $53 million, plus non-cash charges for depreciation and amortization $34 million, plus a non-cash charge for deferred income tax expense of $26 million, plus non-cash charges for provision for impairments and asset disposals of $6 million, plus other non-cash charges totaling $10 million, and less $23 million due to changes in working capital account balances. Such working capital changes are detailed on the Consolidated Statements of Cash Flows, include a $17 million use of cash related to increase in inventories mainly due to the Maurices Incorporated acquisition, a $36 million reduction in accrued expenses related to the litigation settlement, $6 million from the decrease in the income taxes payable balance, offset by $23 million in a larger trade payable balance.

During Fiscal 2005, we invested approximately $328 million in Maurices Incorporated. This investment was funded from the issuance of $115 million of 2.5% Convertible Senior Notes, a $100 million term loan in connection with our $250 million Senior Credit Facility, and from the net sale of marketable securities of $122 million. Subsequent to the acquisition of Maurices Incorporated, we repaid approximately $90 million of borrowings under the Senior Secured Credit Facility. We also purchased $31 million of property and equipment mainly due to expenditures for new stores. We plan to invest approximately $46 million in capital expenditures during Fiscal 2006. We also paid approximately $8 million in fees related to the 2.5% Convertible Senior Notes and Senior Credit Facility. We also received approximately $6 million from the proceeds of stock options exercises.

The Senior Credit Facility provides a $150 million revolving line of credit that gives us ample capacity to fund any short-term working capital needs that may arise in the operation of our expanded business. We believe that our cash and cash equivalents, together with cash flow from operations, along with the Senior Credit Facility will be adequate to fund our planned capital expenditures and all other operating requirements and other proposed or contemplated expenditures in Fiscal 2006 and beyond. As of the date of this filing, we had not utilized the revolving credit facility.

We do not have any undisclosed material transactions or commitments involving related persons or entities. We held no material options or other derivative instruments at July 30, 2005. We do not have any off-balance sheet arrangements or transactions with unconsolidated, limited purpose entities. In the normal course of business, we enter into operating leases for our store locations and utilize letters of credit principally for the importation of merchandise.

Dunnigan Realty, LLC receives rental income and reimbursement for taxes and common area maintenance charges from two tenants that occupy the Suffern facility that are not affiliated with us. These unaffiliated rental payments are used to offset the mortgage payments and planned capital and maintenance expenditures for the Suffern facility.

Dunnigan Realty, LLC, a wholly-owned consolidated subsidiary of the Company, purchased the Suffern facility, of which the major portion is our corporate offices and dressbarn distribution center, for approximately $45.3 million utilizing internally generated funds. Dunnigan Realty, LLC borrowed $34.0 million with a 5.33% rate mortgage loan. The mortgage has a twenty-year term with annual payments of $2.8 million including principal and interest and is secured by a first mortgage lien on the Suffern facility.

In Fiscal 2006, we plan to open approximately 100 additional stores and continue our store remodeling program. Total Fiscal 2006 capital expenditures, which are primarily attributable to the Company's store opening, renovation and refurbishment programs, are expected to be approximately $46 million. The Company intends to focus on both expanding in existing major trading markets and developing and expanding into new markets. We believe that cash and cash equivalents, together with cash flow from operations, will be adequate to fund our proposed capital expenditures and other anticipated obligations.

Contractual Obligations and Commercial Commitments

The estimated significant contractual cash obligations and other commercial commitments at July 30, 2005 are summarized in the following table:

	Payments Due by Period *(Amounts in thousands)*				
Contractual Obligations	Totals	Fiscal 2006	Fiscal 2007-2008	Fiscal 2009-2010	Fiscal 2011 And Beyond
Operating lease obligations	$ 1,237,642	$118,944	$248,221	$ 247,878	$622,599
Mortgage principal and interest	49,816	2,768	5,535	5,535	35,978
Convertible Senior Notes and interest	169,625	2,875	5,750	5,750	155,250
Term loan and interest	12,563	513	1,025	11,025	—
	$1,469,646	$125,100	$260,531	$270,188	$813,827

	Amount of Commitment Expiration Period *(Amounts in thousands)*				
Other Commercial Commitments	Totals	Fiscal 2006	Fiscal 2007-2008	Fiscal 2009-2010	Fiscal 2011 And Beyond
Trade letters of credit	$51,504	$51,504	$—	$—	$—
Standby letters of credit	5,247	5,247	—	—	—
Firm purchase orders	294	294	—	—	—
	$ 57,045	$ 57,045	$—	$—	$—

In addition to the commitments represented in the above table, we enter into a number of cancelable and non-cancelable commitments during the year. Typically, these commitments are for less than a year in duration and are principally focused on the construction of new retail stores and the procurement of inventory. We do not maintain any long-term or exclusive commitments or arrangements to purchase merchandise from any single supplier. Preliminary commitments with our private label merchandise vendors typically are made five to seven months in advance of planned receipt date. Substantially all of our merchandise purchase commitments are cancelable up to 30 days prior to the vendor's scheduled shipment date.

Seasonality

The **dressbarn** and **maurices** brands have historically experienced substantially lower earnings in our second fiscal quarter ending in January than during our other three fiscal quarters, reflecting the intense promotional atmosphere that has characterized the Christmas shopping season in recent years. We expect this trend to continue for Fiscal 2006. In addition, our quarterly results of operations may fluctuate materially depending on, among other things, increases or decreases in same store sales, adverse weather conditions, shifts in timing of certain holidays, the timing of new store openings, net sales contributed by new stores, and changes in our merchandise mix.

Critical Accounting Policies and Estimates

Our accounting policies are more fully described in Note 1 to the Consolidated Financial Statements. Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, income taxes and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate estimates, including those related primarily to merchandise inventories, long-lived assets, insurance reserves, income taxes, stock-based employee compensation, claims and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following accounting principles are the most critical because they involve the most significant judgments, assumptions and estimates used in preparation of the Company's financial statements.

Revenue Recognition

While the Company's recognition of revenue does not involve significant judgment, revenue recognition represents an important accounting policy of the Company. As discussed in Note 1 to the Consolidated Financial Statements, the Company recognizes sales at the point of purchase when the customer takes possession of the merchandise and pays for the purchases, generally with cash or credit card. Sales from purchases made with gift certificates and layaway sales are also recorded when the customer takes possession of the merchandise. Gift certificates and merchandise credits do not have expiration dates and the Company's policy is not to reduce the liability for unredeemed gift certificates or merchandise credits that will eventually be remitted to the states under their escheat laws until such time as amounts are remitted to a state. The Company has reserved for estimated product returns based on historical return trends.

Merchandise Inventories

The Company's inventory is valued using the retail method of accounting and is stated at the lower of cost, on a First In First Out (FIFO) basis, or market. Under the retail inventory method, the valuation of inventory at cost and resulting gross margin are calculated by applying a calculated cost to retail ratio to the retail value of inventory. The retail inventory method is an averaging method that has been widely used in the retail industry due to its practicality. The Company includes in the cost of sales line item all costs of merchandise (net of purchase discounts and vendor allowances), freight on inbound, outbound and internally transferred merchandise, merchandise acquisition costs, primarily commissions and import fees, all occupancy costs excluding depreciation and all costs associated with our buying and distribution functions. Inherent in the retail method are certain significant management judgments and estimates including, among others, initial merchandise markup, markdowns and shrinkage, which significantly impact the ending inventory valuation at cost as well as the resulting gross margins. Physical inventories are conducted in January and July to calculate actual shrinkage and inventory on hand. Estimates are used to charge inventory shrinkage for the first and third fiscal quarters of the fiscal year. The Company continuously reviews its inventory levels to identify slow-moving merchandise and broken assortments, using markdowns to clear merchandise. A provision is recorded to reduce the cost of inventories to its estimated net realizable value. Consideration is given to a number of quantitative factors, including anticipated subsequent markdowns and aging of inventories. To the extent that actual markdowns are higher or lower than estimated, the Company's gross margins could increase or decrease and, accordingly, affect its financial position and results of operations. A significant variation between the estimated provision and actual results could have a substantial impact on the Company's results of operations.

Impairment of Long-lived Assets

The Company primarily invests in property and equipment in connection with the opening and remodeling of stores. When facts and circumstances indicate that the carrying values of such long-lived assets may be impaired, an evaluation of recoverability is performed by comparing the carrying values of the assets to projected future cash flows, in addition to other quantitative and qualitative analyses. Upon indication that the carrying values of such assets may not be recoverable, the Company recognizes an impairment loss as a charge against current operations. Property and equipment assets are grouped at the lowest level for which there is identifiable cash flows when assessing impairment. Cash flows are identified at the individual store level. Judgments made by the Company related to the expected useful lives of long-lived assets and the ability of the Company to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions and changes in operating performance. As the Company assesses the ongoing expected cash flows and carrying amounts of its long-lived assets, these factors could cause the Company to realize material impairment charges. In addition, the Company regularly evaluates its computer-related and other assets and may accelerate depreciation over the revised useful life if the asset is no longer in use or has limited future value. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is reflected in income for that period.

Insurance Reserves

The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for workers' compensation and employee healthcare benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Such liabilities are capped through the use of stop loss contracts with insurance companies. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends. As of July 30, 2005 and July 31, 2004, these reserves were $8.3 million and $5.6 million, respectively, and were included in "Other accrued expenses" on the consolidated balance sheets.

Claims and Contingencies

The Company is subject to various claims and contingencies related to insurance, taxes and other matters arising out of the normal course of business. The Company is self-insured for expenses related to its employee medical and dental plans, and its worker's compensation plan, up to certain thresholds. Claims filed, as well as claims incurred but not reported, are accrued based on management's estimates, using information received from plan administrators, historical analysis, and other relevant data. The Company has stop-loss insurance coverage for individual claims in excess of $250,000. The Company accrues its estimate of probable settlements of Federal and State tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. The Company believes its accruals for claims and contingencies are adequate based on information currently available. However, it is possible that actual results could significantly differ from the recorded accruals for claims and contingencies.

Litigation

The Company is subject to various claims and contingencies relating to litigation arising out of the normal course of business. If the Company believes the likelihood of an adverse legal outcome is probable and the amount is estimable it accrues a liability in accordance with FASB Statement No. 5, "Accounting for Contingencies." The Company consults with legal counsel on matters related to litigation and seeks input from other experts both within and outside the Company with respect to matters in the ordinary course of business. There are no material pending legal proceedings. We are subject to ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Goodwill

Goodwill represents the excess of the purchase price over the fair values of net identifiable assets acquired. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," (SFAS No. 142) the Company does not amortize goodwill or intangible assets with indefinite lives but, rather, the Company is required to evaluate goodwill and intangible assets with indefinite lives annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The conditions that would trigger an impairment of goodwill or intangible assets with indefinite lives include a significant, sustained negative trend in **maurices**' operating results or cash flows, a decrease in demand for **maurices**' products, a change in the competitive environment or other industry and economic factors. Goodwill and intangible assets with indefinite lives are evaluated for impairment annually under the provisions of SFAS No. 142. The Company's annual assessment date is on or about June 30th. In addition, while we have concluded that the fair value of goodwill and other intangible assets with indefinite lives exceeds the carrying value as of July 30, 2005, changes in **maurices** estimated future cash flows could require us to record impairment charges on these assets.

Operating Leases

The Company leases retail stores under operating leases. Most lease agreements contain construction allowances, rent holidays, lease premiums, rent escalation clauses and/or contingent rent provisions. For purposes of recognizing incentives, premiums and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date of initial possession to begin amortization, which is generally when the Company enters the space and begins to make improvements in preparation of intended use.

For construction allowances and rent holidays, the Company records a deferred rent liability in "Other accrued expenses" and "Deferred rent" on the consolidated balance sheets and amortizes the deferred rent over the terms of the leases as reductions to "Cost of sales including occupancy and buying costs" on the consolidated statements of earnings.

For premiums paid upfront to enter a lease agreement, the Company records a deferred rent asset in "Other assets" on the consolidated balance sheets and then amortizes the deferred rent over the terms of the leases as additional rent expense on the consolidated statements of earnings.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases on the consolidated statements of earnings.

Certain leases provide for contingent rents, which are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability in "Other accrued expenses" on the consolidated balance sheets and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable.

Income Taxes

The Company does business in various jurisdictions that impose income taxes. Management determines the aggregate amount of income tax expense to accrue and the amount currently payable based upon the tax statutes of each jurisdiction. This process involves adjusting income determined using generally accepted accounting principles for items that are treated differently by the applicable taxing authorities. Deferred taxes are provided using the asset and liability method, whereby deferred income taxes result from temporary differences between the reported amounts in the financial statements and the tax basis of assets and liabilities, as measured by current tax rates. The Company establishes valuation allowances against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur.

Stock-based Compensation

We have elected to follow Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, in accounting for our stock-based employee compensation plans, rather than the alternative fair value accounting method provided for under SFAS No. 123, *Accounting for Stock-based Compensation*. In the notes to our financial statements, we provide pro forma disclosures in accordance with SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-based Compensation, Transition and Disclosure*, and related pronouncements.

We account for stock options and warrants granted to non-employees based on the fair value of the stock option or warrant using the Black-Scholes option-pricing model based on assumptions for expected stock price volatility, expected term of the option, risk-free interest rate and expected dividend yield at the grant date.

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123 (revised 2004) statement, *Share-Based Payment*, (SFAS 123R), which addresses the accounting for share-based awards to employees, including those made under employee stock purchase plans. SFAS 123R requires companies to recognize fair value of stock options and other stock-based compensation to employees in their statements of operations. The effective date of SFAS 123R for us is July 31, 2005. Because we currently account for our stock-based compensation plans in accordance with APB Opinion No. 25, we expect the adoption of SFAS 123R will have a material effect on our financial statements beginning in the first quarter of Fiscal 2006. Although we cannot precisely estimate the future impact of adopting SFAS 123R because it will depend on several factors including future stock price volatility and the levels of share-based awards granted in the future.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
The Dress Barn, Inc.
Suffern, New York

We have audited the accompanying consolidated balance sheets of The Dress Barn, Inc. and subsidiaries (the "Company") as of July 30, 2005 and July 31, 2004, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the three fiscal years in the period ended July 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as of July 30, 2005 and July 31, 2004, and the results of their operations and their cash flows for each of the three fiscal years in the year ended July 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the accompanying Fiscal 2004 and 2003 consolidated financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of July 30, 2005, based on the criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 12, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of a material weakness.

/S/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
New York, New York

October 12, 2005

Consolidated Balance Sheets

Amounts in thousands, except share data

	July 30, 2005	July 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 42,434**	$ 15,141
Restricted cash (see Note 1)	**100**	38,661
Marketable securities and investments (see Note 4)	**85**	122,700
Merchandise inventories	**167,643**	116,912
Deferred income tax asset (see Note 9)	**—**	14,845
Prepaid expenses and other	**12,923**	8,898
Total Current Assets	**223,185**	317,157
Property and Equipment:		
Land and buildings	**58,461**	45,391
Leasehold improvements	**126,351**	93,289
Fixtures and equipment	**202,500**	173,466
Computer software	**36,415**	23,302
	423,727	335,448
Less accumulated depreciation and amortization	**191,029**	172,244
Property and equipment, net	**232,698**	163,204
Other Intangible Assets, net (see Note 2)	**111,243**	—
Goodwill (see Note 2)	**132,566**	—
Other Assets	**16,553**	8,955
TOTAL ASSETS	**$716,245**	$489,316
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable—trade	**$ 107,702**	$ 66,776
Accrued salaries, wages and related expenses	**35,209**	21,349
Litigation accrual (see Note 7)	**—**	36,128
Other accrued expenses	**35,237**	24,247
Customer credits	**12,849**	8,970
Income taxes payable	**92**	5,548
Deferred tax liability	**3,612**	—
Current portion of long-term debt (see Note 5)	**1,089**	1,033
Total Current Liabilities	**195,790**	164,051
Long-term debt (see Note 5)	**155,900**	31,988
Deferred rent and other	**44,194**	40,319
Deferred tax liability	**7,233**	—
Total Liabilities	**403,117**	236,358
Commitments and Contingencies (see Note 10)		
Shareholders' Equity:		
Preferred stock, par value $.05 per share:		
Authorized—100,000 shares		
Issued and outstanding—none	**—**	—
Common stock, par value $.05 per share:		
Authorized—50,000,000 shares		
Issued—30,205,341 and 29,638,360 shares, respectively		
Outstanding—30,205,341 and 29,618,660 shares, respectively	**1,510**	1,482
Additional paid-in capital	**73,193**	63,554
Retained earnings	**239,426**	188,757
Treasury stock, to be retired	**—**	(313)
Accumulated other comprehensive loss	**—**	(522)
Deferred Compensation	**(1,001)**	—
Total Shareholders' Equity	**313,128**	252,958
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$716,245**	$489,316

See notes to consolidated financial statements

Consolidated Statements of Earnings

Amounts in thousands, except share data

Fiscal Year Ended	**July 30, 2005**	July 31, 2004 (as restated, see Note 3)	July 26, 2003
Net sales	**$1,000,264**	$754,903	$ 707,121
Cost of sales, including occupancy and buying costs	**621,656**	472,198	451,579
Gross profit	**378,608**	282,705	255,542
Selling, general and administrative expenses	**286,751**	212,477	194,005
Depreciation and amortization	**34,457**	23,197	22,262
Litigation (see Note 7)	**(35,329)**	3,329	32,000
Operating income	**92,729**	43,702	7,275
Interest income	**1,735**	2,204	3,332
Interest expense	**(10,230)**	(1,959)	(164)
Other income	**1,526**	1,526	779
Earnings before provision for income taxes	**85,760**	45,473	11,222
Provision for income taxes	**33,200**	14,541	4,039
Net earnings	**$ 52,560**	$ 30,932	$ 7,183
Earnings per share:			
Basic	**$1.76**	$1.05	$0.23
Diluted	**$1.72**	$1.03	$0.22
Weighted average shares outstanding:			
Basic	**29,785**	29,413	31,219
Diluted	**30,579**	30,120	31,942

See notes to consolidated financial statements

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Amounts and shares in thousands

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Total Shareholders' Equity
Balance, July 27, 2002	36,508	$1,825	$52,209	$ 271,061	$ —	$ 547	$ —	$ 325,642
Comprehensive income:								
Net earnings				7,183				7,183
Unrealized holding loss on marketable securities						(609)		(609)
Total comprehensive income								6,574
Issuance of restricted stock	20	1	264				(265)	—
Amortization of deferred compensation expense							265	265
Tax benefit from exercise of stock options			1,381					1,381
Employee Stock Purchase Plan activity	7		87					87
Shares issued pursuant to exercise of stock options	635	32	4,259					4,291
Purchase of treasury stock	(8,000)				(120,819)			(120,819)
Retirement of treasury stock—Tender Offer		(400)		(120,419)	120,819			—
Balance, July 26, 2003	29,170	1,458	58,200	157,825	—	(62)	—	217,421
Comprehensive income:								
Net earnings				30,932				30,932
Unrealized holding loss on marketable securities						(460)		(460)
Total comprehensive income								30,472
Issuance of restricted stock	—		67				(67)	—
Amortization of deferred compensation expense							67	67
Tax benefit from exercise of stock options			1,460					1,460
Employee Stock Purchase Plan activity	5		83					83
Shares issued pursuant to exercise of stock options	464	24	3,744					3,768
Purchase of treasury stock	(20)				(313)			(313)
Balance, July 31, 2004	29,619	1,482	63,554	188,757	(313)	(522)	—	252,958
Comprehensive income:								
Net earnings				**52,560**				**52,560**
Unrealized gain/(loss) on marketable securities						**—**		**—**
Total comprehensive income								**52,560**
Reversal of unrealized loss on marketable securities						**522**		**522**
Issuance of restricted stock	**77**	**4**	**1,395**				**(1,399)**	**—**
Amortization of deferred compensation expense							**398**	**398**
Tax benefit from exercise of stock options			**2,258**					**2,258**
Employee Stock Purchase Plan activity	**6**		**136**					**136**
Shares issued pursuant to exercise of stock options	**603**	**30**	**5,850**					**5,880**
Purchase of treasury stock	**(100)**				**(1,584)**			**(1,584)**
Retirement of treasury stock		**(6)**		**(1,891)**	**1,897**			**—**
Balance, July 30, 2005	**30,205**	**$1,510**	**$73,193**	**$ 239,426**	**$ —**	**$ —**	**$ (1,001)**	**$ 313,128**

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Amounts in thousands

Fiscal Year Ended	**July 30, 2005**	July 31, 2004 (as restated, see Note 3)	July 26, 2003 (as restated, see Note 3)
Operating Activities:			
Net earnings	**$ 52,560**	$ 30,932	$ 7,183
Adjustments to reconcile net earnings			
to net cash provided by operating activities:			
Depreciation and amortization	**34,457**	23,197	22,262
Provision for impairments and asset disposals	**6,136**	4,906	1,539
Deferred income tax expense (benefit)	**25,690**	2,491	(5,871)
Deferred rent expense and other	**3,875**	1,351	1,899
Tax benefit on exercise of unqualified stock options	**2,258**	1,460	1,381
Amortization of debt issuance cost	**3,920**	152	—
Increase in cash surrender value of life insurance	**(522)**	(600)	(1,060)
Deferred compensation	**398**	67	265
Realized loss/(gain) on sales of securities	**579**	(15)	(608)
Changes in assets and liabilities, net of acquisition:			
(Increase) decrease in merchandise inventories	**(17,256)**	(6,564)	3,023
Decrease (increase) in prepaid expenses and other	**3,780**	(1,515)	(3,790)
(Increase) decrease in other assets	**(650)**	208	456
Increase in accounts payable—trade	**22,874**	1,686	1,056
Increase in accrued salaries and wages	**7,578**	2,467	793
(Decrease) increase in litigation accrual	**(36,128)**	536	31,544
Increase (decrease) in accrued expenses	**2,428**	(3,108)	813
(Decrease) increase in customer credits	**(938)**	1,686	634
Decrease in income taxes payable	**(5,456)**	(1,540)	(1,568)
Total adjustments	**53,023**	26,865	52,768
Net cash provided by operating activities	**105,583**	57,797	59,951
Investing Activities:			
Acquisition of Maurices Incorporated, net of $982 cash acquired	**(328,305)**	—	—
Return of investment/(investment in) restricted cash	**38,561**	(38,661)	—
Purchases of property and equipment	**(31,381)**	(33,867)	(67,071)
Sales and maturities of marketable securities and investments	**694,346**	258,713	404,430
Purchases of marketable securities and investments	**(571,788)**	(267,961)	(359,279)
Purchases of long-term investments	**—**	(900)	—
Net cash used in investing activities	**(198,567)**	(82,676)	(21,920)
Financing Activities:			
Proceeds from issuance of long-term debt	**215,000**	—	34,000
Payment of long-term debt	**(91,033)**	(979)	—
Payment for debt issuance cost	**(8,122)**	(90)	(1,730)
Purchase of treasury stock	**(1,584)**	(313)	(120,819)
Proceeds from Employee Stock Purchase Plan	**136**	83	88
Proceeds from stock options exercised	**5,880**	3,768	4,291
Net cash provided by (used in) financing activities	**120,277**	2,469	(84,170)
Net increase (decrease) in cash and cash equivalents	**27,293**	(22,410)	(46,139)
Cash and cash equivalents—beginning of year	**15,141**	37,551	83,690
Cash and cash equivalents—end of year	**$ 42,434**	$ 15,141	$ 37,551
Supplemental Disclosure of Cash Flow Information:			
Cash paid for income taxes	**$ 12,083**	$ 12,130	$ 10,206
Cash paid for interest	**$ 5,700**	$ 1,789	$ 35
Capital expenditures incurred but not yet paid	**$ 2,702**	$ 1,893	$ 998

See notes to consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Dress Barn, Inc. and its wholly-owned subsidiaries (the "Company," "we," "our," or similar terms) operate a chain of women's apparel specialty stores. The stores, operating principally under the names "**dressbarn**" and "**dressbarn woman**" and, since our January 2005 acquisition of Maurices Incorporated, "**maurices**." The Company's **dressbarn** stores are operated mostly in a combination of **dressbarn** and **dressbarn woman** stores, or Combo stores, which carry **dressbarn** and larger-sized **dressbarn woman** merchandise, as well as freestanding **dressbarn** and **dressbarn woman** stores. These stores offer in-season, moderate to better quality career and casual fashion to the working woman at value prices. The **dressbarn** brands primarily attract female consumers in the mid 30's to mid 50's age range. The **maurices** stores are concentrated in small markets (having populations of approximately 25,000 to 100,000) in the United States and offer moderately priced, up-to-date fashions designed to appeal to **maurices**' target customers, the 17 to 34 year-old-female as well as the causal apparel needs of the 17 to 34 year-old-male. During the fourth quarter, we concluded that we should disclose reportable segments to reflect the impact of our acquisition of Maurices Incorporated.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions are eliminated in consolidation. The Company reports on a 52-53 week fiscal year ending on the last Saturday in July. Fiscal years 2005 and 2003 consisted of 52 weeks. Fiscal year ended July 31, 2004 consisted of 53 weeks. Certain reclassifications have been made to the prior years' consolidated financial statements to conform to Fiscal 2005's presentation.

Dunnigan Realty, LLC, a wholly-owned subsidiary of the Company, was formed in Fiscal 2003 to purchase, own and operate a distribution/office facility in Suffern, New York (the "Suffern facility"), of which the major portion is the Company's corporate offices and dressbarn distribution center. Dunnigan Realty, LLC receives rental income and reimbursement for taxes and common area maintenance charges from the Company and two additional tenants that occupy the Suffern facility that are not affiliated with the Company. The rental income from the unaffiliated tenants is shown as "other income" on the Company's Consolidated Statements of Earnings. Intercompany rentals between the Company and Dunnigan Realty, LLC are eliminated in consolidation.

Revenue recognition

Revenues from retail sales, net of estimated returns, are recognized at the point of purchase upon delivery of the merchandise to the customer and exclude sales taxes. Sales from purchases made with gift certificates and layaway sales are also recorded when the customer takes possession of the merchandise. The Company's gift certificates and merchandise credits do not have expiration dates, and the Company's current policy is that it does not reduce its liability for unredeemed gift certificates or merchandise credits that will eventually be remitted to the states under their escheat laws until such time amounts are remitted to the state. The Company records a reserve for estimated product returns based on historical return trends.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers its highly liquid investments with maturities of three months or less when purchased to be cash equivalents. These amounts are stated at cost, which approximates market value. The majority of the Company's money market funds at July 30, 2005 were maintained with one financial institution. The Company's cash management process provides for the daily funding of checks as they are presented to the bank.

Restricted cash and cash equivalents

At July 31, 2004, restricted cash consisted of $38.7 million held in escrow as required as part of an appeal of a legal judgment which was reversed in Fiscal 2005. Refer to Note 7 to the Consolidated Financial Statements for further details.

Marketable securities and investments

The Company has categorized its marketable securities as available for sale, stated at market value. The unrealized holding gains and losses are included in other comprehensive income, a component of shareholders' equity, until realized. The amortized cost is adjusted for amortization of premiums and discounts to maturity, with the net amortization included in interest income.

Merchandise inventories

The Company values its merchandise inventories at the lower of cost, on a First In First Out (FIFO) basis, or market, as determined by the retail inventory method. The Company includes in cost of sales, including occupancy and buying costs, all costs of merchandise (net of purchase discounts and vendor allowances), all costs associated with its buying and distribution functions, freight on inbound, outbound and internally transferred merchandise, merchandise acquisition costs, commissions and import fees, and all occupancy costs excluding depreciation.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of fixtures and equipment, and software is provided on the straight-line method over the estimated useful lives, generally ranging from 5 to 10 years and 25 years for the building. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease life, generally 10 years. For leases with renewal periods at the Company's option, the Company generally uses the original lease term, excluding renewal option periods to determine estimated useful lives; if failure to exercise a renewal option imposes an economic penalty to the Company, management determines at the inception of the lease that renewal is reasonably assured and includes the renewal option period in the determination of appropriate estimated useful lives. The costs of repairs and maintenance are expensed when incurred, while expenditures for refurbishments and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. When assets are retired or sold, the asset cost and related accumulated depreciation are eliminated with any remaining gain or loss reflected in net earnings.

Impairment of long-lived assets

The Company primarily invests in property and equipment in connection with the opening and remodeling of stores. When facts and circumstances indicate that the carrying values of such long-lived assets may be impaired, an evaluation of recoverability is performed by comparing the carrying values of the assets to projected future cash flows, in addition to other quantitative and qualitative analyses. Upon indication that the carrying values of such assets may not be recoverable, the Company recognizes an impairment loss as a charge against current operations. Property and equipment assets are grouped at the lowest level for which there is identifiable cash flows when assessing impairment. Cash flows are identified at the individual store level. Judgments made by the Company related to the expected useful lives of long-lived assets and the ability of the Company to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions and changes in operating performance. As the Company assesses the ongoing expected cash flows and carrying amounts of its long-lived assets, these factors could cause the Company to realize material impairment charges. In addition, the Company regularly evaluates its computer-related and other assets and may accelerate depreciation over the revised useful life if the asset has limited future value. When assets are impaired, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting loss is reflected in income for that period. Based on the review of certain under performing stores, the Company recorded impairment charges and store closings that are included in selling general and administrative expenses of $6.1 million in Fiscal 2005, $4.9 million in Fiscal 2004 and $1.5 million in Fiscal 2003. These impairment losses reflect the amount of book value over fair market value of store related assets in certain locations where market conditions limit the Company's ability to recover its investments.

Costs of computer software

We capitalize certain costs associated with computer software developed or obtained for internal use in accordance with the provisions of Statement of Position No 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), issued by the American Institute of Certified Public Accountants (AICPA). We capitalize those costs from the acquisition of external materials and services associated with developing or obtaining internal use computer software. We capitalize certain payroll costs for employees that are directly associated with internal use computer software projects once specific criteria of SOP 98-1 are met. We expense those costs that are associated with preliminary stage activities, training, maintenance, and all other post-implementation stage activities as they are incurred. We amortize all costs capitalized in connection with internal use computer software projects on a straight-line basis over a useful life of five years, beginning when the software is ready for its intended use.

Insurance reserves

The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities associated with workers' compensation and employee healthcare benefit claims. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Such liabilities are capped through the use of stop loss contracts with insurance companies. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends. As of July 30, 2005 these reserves were $8.3 million and as of July 31, 2004 these reserves were $5.6 million, and were included in "Other accrued expenses" on the consolidated balance sheets.

Income taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Deferred taxes are provided using the asset and liability method, whereby deferred income taxes result from temporary differences between the reported amounts in the financial statements and the tax basis of assets and liabilities, as measured by presently enacted tax rates. The Company establishes valuation allowances against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur.

Goodwill impairment

Goodwill represents the excess of the purchase price over the fair values of net identifiable assets acquired. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," the Company does not amortize goodwill or other intangible assets with indefinite lives but, rather, it is required to evaluate goodwill and other intangible assets with indefinite lives annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The conditions that would trigger an impairment of goodwill or intangible assets with indefinite lives include a significant, sustained negative trend in **maurices**' operating results or cash flows, a decrease in demand for **maurices**' products, a change in the competitive environment or other industry and economic factors. The Company did perform an assessment for impairment of our goodwill and our intangible assets with indefinite lives. Based on the estimated fair market values (calculated using undiscounted cash flows, comparable transactions, and comparable public companies) of the goodwill and our intangible assets with indefinite lives, we determined that no impairment exists. The Company performs an annual assessment of our goodwill and other intangible assets with indefinite lives on or about June 30th or as impairment conditions arise.

Store preopening costs

Non-capital expenditures, such as advertising and payroll costs incurred prior to the opening of a new store are charged to expense in the period they are incurred.

Earnings per share (EPS)

The Company calculates EPS in accordance with the provisions of SFAS No. 128, "Earnings per Share." Basic EPS is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities.

Marketing and advertising costs

Marketing and advertising costs are included in selling, general and administrative expenses and are expensed the first time the advertising campaign takes place. Marketing and advertising expenses were $15.5 million for Fiscal 2005, $12.3 million for Fiscal 2004, and $10.1 million for Fiscal 2003.

Operating leases

The Company leases retail stores under operating leases. Most lease agreements contain construction allowances, and rent escalations. For purposes of recognizing incentives and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date of initial possession to begin amortization, which is generally when the Company enters the space and begins to make improvements in preparation of intended use.

For construction allowances, the Company records a deferred rent liability in "Other accrued expenses" and "Deferred rent" on the consolidated balance sheets and amortizes the deferred rent over the term of the respective lease as reductions to "Cost of sales including occupancy and buying costs" on the consolidated statements of earnings.

For premiums paid upfront to enter a lease agreement, the Company records a deferred rent asset in "Other assets" on the consolidated balance sheets and then amortizes the deferred rent over the term of the respective lease as additional rent expense on the consolidated statements of earnings.

For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases on the consolidated statements of earnings.

Certain leases provide for contingent rents, which are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability in "Other accrued expenses" on the consolidated balance sheets and the corresponding rent expense when specified levels have been achieved or when management determines that achieving the specified levels during the fiscal year is probable.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The more significant items subject to such estimates and assumptions include fair value of our equity securities, carrying amount of property and equipment, obligations related to employee benefits, inventory valuation, insurance reserves, and accounting for income taxes. Actual results could differ from those estimates.

Comprehensive income

Comprehensive income consists of net earnings and unrealized holding gains and losses on marketable securities, net of tax.

Stock-based compensation

The Company uses the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," where compensation expense, if any, is measured as the excess of the market price of the stock over the exercise price on the measurement date. No compensation expense is recognized for the Company's option grants that have an exercise price equal to the market price on the date of grant or for the Company's Employee Stock Purchase Plan. In accordance with SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of SFAS No. 123" ("SFAS 148"), the Company discloses the pro forma effects of recording stock-based employee compensation plans at fair value on net earnings and net earnings per common share—basic and diluted as if the compensation expense was recorded in the financial statements.

Had compensation cost for the Company's stock option plans been determined based on the fair value at the option grant dates for awards in accordance with the accounting provisions of SFAS No. 148 (which does not apply to awards prior to fiscal 1996), the Company's net earnings and earnings per share for fiscal 2005, fiscal 2004 and fiscal 2003 would have been reduced to the pro forma amounts indicated below:

Fiscal Year Ended	**July 30, 2005**	July 31, 2004	July 26, 2003
(Amounts in thousands, except per share data)			
Net earnings as reported	**$52,560**	$30,932	$ 7,183
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards net of related tax effects	**(1,681)**	(2,060)	(1,939)
Pro forma net earnings	**$50,879**	$28,872	$ 5,244
Earnings per share			
Basic—as reported	**$1.76**	$1.05	$0.23
Basic—pro forma	**$1.71**	$0.98	$0.17
Diluted—as reported	**$1.72**	$1.03	$0.22
Diluted—pro forma	**$1.66**	$0.96	$0.16

The fair values of the options granted under the Company's fixed stock option plans were estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Fiscal Year Ended	**July 30, 2005**	July 31, 2004	July 26, 2003
Weighted average risk-free interest rate	**3.6%**	3.3%	3.1%
Weighted average expected life (years)	**5.0**	5.0	5.0
Expected volatility of the market price of the Company's common stock	**45.1%**	39.1%	43.9%
Expected dividend yield	**0%**	0%	0%

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require 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 subjective input assumptions can materially affect the fair value estimate, the actual value realized at the time the options are exercised may differ from the estimated values computed above.

Financial instruments

Concentration of Credit Risk—Financial instruments, which potentially subject the Company to concentrations of credit risk, are principally bank deposits and short-term investments. Cash and cash equivalents are deposited with high credit quality financial institutions. Short-term investments principally consist of "triple A" or "double A" rated instruments.

Fair Value of Financial Instruments—The carrying amounts of cash, cash equivalents, short-term investments and accounts payable approximate fair value because of the short-term nature, and maturity of such instruments.

Treasury (reacquired) shares

Shares repurchased are retired and treated as authorized but unissued shares, with the cost of the reacquired shares recorded in retained earnings and the par value recorded in common stock.

Recent accounting pronouncements

In December 2004, the FASB issued Statement No. 123R (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which is a revision of SFAS No. 123. SFAS No. 123R supersedes APB No. 25 and amends Statement No. 95, "Statement of Cash Flows." Under SFAS No. 123R, companies must calculate and record in the income statement, not in pro forma disclosures, the cost of equity instruments, such as stock options, awarded to employees for services received. The cost of the equity instruments will be measured based on fair value of the instruments on the date they are granted (with certain exceptions) and will be required to be recognized over the period during which the employees are required to provide services in exchange for the equity instruments. The statement is effective in the first fiscal year beginning after June 15, 2005, therefore, the Company is required to adopt SFAS No. 123R effective the beginning of its fiscal year ending in July 2006.

The Company is evaluating the requirements of SFAS No. 123R and expects that the adoption of SFAS No. 123R will have a material effect on its results of operations and earnings per share. The Company must determine the appropriate fair value method to be used for valuing share-based payments, the amortization method of compensation cost and the transition method to be used at the date of adoption. We cannot precisely estimate the future impact of adopting SFAS No. 123R because it will depend on several factors including future stock price volatility and the levels of share-based awards granted in the future. However, had we adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in this Note above to our consolidated financial statements. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow. This change will reduce net operating cash flows and increase net financing cash flows in periods after adoption. The amount of this change cannot be estimated at this time.

In September 2004, the Emerging Issues Task Force reached a final consensus on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share" ("EITF 04-8"), to change the existing accounting for convertible debt within the dilutive earnings per share calculation. The EITF concluded the common stock underlying contingent convertible debt instruments should be included in diluted net income per share computations using the if-converted method regardless of whether the market price trigger or other contingent feature has been met. The EITF concluded that this new treatment should be applied retroactively, with the result that issuers of securities would be required to restate previously issued diluted earning per share. In October 2004, The FASB approved EITF 04-8 and established an implementation date of December 15, 2004. The Company has included the shares of common stock that may be issued to settle its contingently convertible securities in the calculation of its diluted earnings per share. The impact of the adoption of this EITF consensus was not significant to the Company's overall results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151 ("SFAS No. 151"), "Inventory Costs," which amends Accounting Research Bulletin No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. SFAS No. 151 also requires the allocation of fixed production overheads to inventory be based on normal production capacity. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, and, accordingly, the Company will adopt the standard in the first quarter of Fiscal 2006. Adoption of SFAS No. 151 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March 2005, the FASB issued FASB Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143." FIN 47 clarifies the scope and timing of liability recognition for conditional asset retirement obligations under SFAS No. 143 and is effective no later than the end of our 2005 fiscal year. The Company does not expect FIN 47 to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2005, the Emerging Issues Task Force of the Financial Accounting Standards Board ("FASB") reached a consensus on Issue No. 05-6, "Determining the Amortization Period for Leasehold Improvements" ("EITF 05-6"). The guidance requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of a lease be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The adoption of EITF 05-6 is not expected to have a material effect on the Company's consolidated financial position, results of operations or cash flows.

2. ACQUISITION OF MAURICES INCORPORATED

On January 3, 2005, as of the close of business on January 1, 2005, the Company acquired 100% of the outstanding stock of Maurices Incorporated, a specialty apparel retailer, for a total purchase price of $328.3 million, net of cash acquired, which included $4.4 million of transaction fees. The transaction was financed by $114.3 in cash (derived from the sale of investments), the issuance of $115 million 2.5% convertible senior notes due 2024, and $100 million from borrowings under a $250 million senior credit facility (consisting of a $100 million term loan, and a $150 million revolving credit line under which no funds were drawn). The Company's condensed consolidated financial statements include **maurices**' results of operations from January 2, 2005. The Company accounted for the acquisition as a purchase using the accounting standards established in Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and, accordingly, the excess purchase price over the fair market value of the underlying net assets acquired, of $132.6 million, was allocated to goodwill after considering the post-closing adjustments described below.

The following table summarizes the allocation of the purchase price to the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date, January 1, 2005, in accordance with SFAS No. 141. The allocation of the purchase price to the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date was performed in accordance with SFAS No. 141. The Company's allocation was based on an evaluation of the appropriate fair values and represented management's best estimate based on the data.

The estimated fair values of assets acquired and liabilities assumed, as of the close of business on January 1, 2005 are as follows:

(Amounts in thousands)	
Purchase Price	$328,305
Current assets	7,788
Inventory	33,475
Property, plant, and equipment, net	75,394
Intangibles	111,853
Other non-current assets	2,241
Total assets acquired	230,751
Total liabilities assumed	(35,012)
Net assets acquired, net of cash	195,739
Goodwill	$132,566

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," amortization of goodwill and indefinite life intangible assets is replaced with annual impairment tests. The Company performs annual impairment tests on or about June 30th to determine whether an impairment charge related to the carrying value of the Company's recorded goodwill is necessary.

Other identifiable intangible assets consist of trade names, customer relationship and proprietary technology. Trade names have an indefinite life and therefore are not amortized. Customer relationship and proprietary technology constitute the Company's identifiable intangible assets subject to amortization which are amortized on a straight-line basis over their useful lives.

Other intangible assets were comprised of the following as of July 30, 2005:

	Gross Carrying Amount	Accumulated Amortization	Net Amount	Expected Life
(Amounts in thousands)				
Customer Relationship	$ 2,200	$183	$ 2,017	7 years
Proprietary Technology	3,653	427	3,226	5 years
Trade Name	106,000	—	106,000	Indefinite
Total intangible assets	$111,853	$610	$111,243	

The estimated annual amortization expense over the next five years is $1 million per fiscal year. The weighted average expected life of the other intangible assets subject to amortization is 6 years.

The following unaudited pro forma information assumes the Maurices Incorporated acquisition had occurred on July 27, 2003. The pro forma information, as presented below, is not indicative of the results that would have been obtained had the transaction occurred on July 27, 2003, nor is it indicative of the Company's future results.

Fiscal Year Ended	**July 30, 2005**	July 31, 2004
(Amounts in millions, except per share data)		
Pro forma net sales	**$1,167.4**	$1,117.2
Pro forma net income	**45.1**	33.9
Pro forma earnings per share:		
Basic	**$1.51**	$1.15
Diluted	**$1.47**	$1.13

3. RESTATEMENTS OF FINANCIAL STATEMENTS

The Company concluded that its Consolidated Statements of Cash Flow presentation for fiscal periods ending July 31, 2004 and July 26, 2003 should be restated to properly record the presentation of purchases and sales of marketable securities and investments on a gross basis, which had historically been recorded on a net basis and to correct both the amounts and the presentation of gain/(loss) on sale of marketable securities from investing activities to operating activities.

In addition, the Company corrected the classification of the change in restricted cash in the consolidated statements of cash flows from an operating activity to an investing activity in accordance with FASB Statement No. 95, "Statement of Cash Flows."

The Company also determined that certain liabilities associated with the acquisition of property and equipment, were incorrectly reflected as a component of changes in operating liabilities and purchases of property and equipment in the statements of cash flows. Purchases of property and equipment accrued at each balance sheet date have been presented as supplemental disclosure of non-cash items.

These corrections did not affect the total net change in cash and cash equivalents and had no impact on the Company's consolidated balance sheets, consolidated statements of earnings, consolidated statement of shareholders' equity and comprehensive income, and earnings per share.

Following is a summary of the significant effects of these restatements on the Company's consolidated statements of cash flows for Fiscal years 2004 and 2003:

	Consolidated Statement of Cash Flows		
Fiscal Year Ended July 31, 2004	As previously reported	Adjustments	As restated
(Amounts in thousands)			
Operating Activities:			
Restricted cash	$ (38,661)	$ 38,661	$ —
Realized loss/(gain) on sales of securities	—	(15)	(15)
Increase (decrease) in accrued expenses	(1,215)	(1,893)	(3,108)
Net cash provided by operating activities	$ 21,044	$ 36,753	$ 57,797
Investing Activities:			
Restricted cash	$ —	$ (38,661)	$ (38,661)
Purchases of property and equipment	(35,760)	1,893	(33,867)
Sales and maturities of marketable securities and investments	62,741	195,972	258,713
Purchases of marketable securities and investments	(72,004)	(195,957)	(267,961)
Net cash used in investing activities	$ (45,923)	$ (36,753)	$ (82,676)

Fiscal Year Ended July 26, 2003	As previously reported	Adjustments	As restated
(Amounts in thousands)			
Operating Activites:			
Realized loss/(gain) on sales of securities	$ —	$ (608)	$ (608)
Increase (decrease) in accrued expenses	1,811	(998)	813
Net cash provided by operating activities	$ 61,557	$ (1,606)	$ 59,951
Investing Activities:			
Purchases of property and equipment	$ (68,069)	$ 998	$ (67,071)
Sales and maturities of marketable securities and investments	138,346	266,084	404,430
Purchases of marketable securities and investments	(93,803)	(265,476)	(359,279)
Net cash used in investing activities	$ (23,526)	$ 1,606	$ (21,920)

The Company also determined that interest expense related to an escrow account established with litigation discussed in Note 7, which was previously reported as a component of interest expense, and thus not included as part of operating income, should be reclassified to be recorded as litigation expense. The Company's financial statements for the year ended July 31, 2004 have been corrected to reflect an increase in litigation with a corresponding decrease in interest expense and operating income of $3.3 million. This revision had no effect on net income.

In addition, the Company restated diluted earnings per share in the fourth quarter of Fiscal 2004, to correct an error. The restated amount of $0.45 was previously reported as $0.46.

4. MARKETABLE SECURITIES AND INVESTMENTS

The Company purchases short-term investments and marketable securities which have been designated as "available-for-sale" as required by Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Available-for-sale securities are carried at fair value with the unrealized gains and losses reported in shareholders' equity under the caption "Accumulated Other Comprehensive Income (Loss)." The cost of securities sold is based on the specific identification method.

The amortized cost, gross unrealized gains and losses and estimated fair value based on published closing prices of securities at July 30, 2005 and July 31, 2004, by contractual maturity, are shown below.

	July 30, 2005		July 31, 2004	
	Estimated Fair Value	**Cost**	Estimated Fair Value	Cost
(Amounts in thousands)				
Money Market Funds	**$85**	**$85**	$ 4,676	$ 4,676
Short-Term Investments	**—**	**—**	35,545	35,545
Tax Free Municipal Bonds	**—**	**—**	80,746	81,176
US Govt. Securities Fund	**—**	**—**	1,733	1,878
Total	**$85**	**$85**	$122,700	$123,275

The scheduled maturities of marketable securities and investments at July 30, 2005 are:

Due In	Estimated Fair Value	Cost
(Amounts in thousands)		
One year or less	$85	$85
One year through five years	—	—
Six years through ten years	—	—
Over ten years	—	—
Total	$85	$85

Proceeds and gross realized (losses) gains from the sale of the above investments in Fiscal 2005, 2004 and 2003 were $114.6 million and $(0.6) million, $62.9 million and $15 thousand, $138.3 million and $0.6 million, respectively. For the purposes of determining gross realized gains and losses, the cost of securities is based upon specific identification. The realized losses and gains from the sale of marketable securities are reflected in interest income on our consolidated statements of earnings.

Gross unrealized losses and fair values of the Company's investments in the US Government Securities Fund have been in a continuous unrealized loss position deemed to be temporary for more than 12 months. The gross unrealized losses were $145 thousand and fair value of these securities were $1.7 million as of July 31, 2004.

The Company did not have any other investments in individual securities that were in a continuous unrealized loss position deemed to be temporary for more than 12 months at July 30, 2005 or July 31, 2004.

The Company periodically reviews its investment portfolio to determine if there is an impairment that is other than temporary, and to date, has not experienced any impairments in its investments that were other than temporary.

In evaluating whether the individual investments in the investment portfolio are not other than temporarily impaired, the Company considered the credit rating of the individual securities, the cause of the impairment of the individual securities which are primarily related to interest rate increases and the severity of the impairment of the individual securities which are all less than 5% of the book value of the security.

5. LONG-TERM DEBT

On December 15, 2004, the Company issued 2.50% Convertible Senior Notes due 2024 ("Convertible Senior Notes"). The Convertible Senior Notes have an aggregate principal amount of $115 million and interest is payable on June 15 and December 15 of each year, beginning on June 15, 2005, except that from March 15, 2005 to May 2, 2005, the notes bore interest at the rate of 2.75% per year. Beginning with the period commencing on December 22, 2011 and ending June 14, 2012, and for each of the six-month periods thereafter commencing on June 15, 2012, the Company is required to pay contingent interest during the applicable interest period if the average trading price of the notes on the five trading days ending on the third day immediately preceding the first day of the applicable interest period equals or exceeds 120% of the principal amount of the notes. The contingent interest payable per note within any applicable interest period will equal an annual rate of 0.25% of the average trading price of a note during the measuring period. The Company may redeem some or all of the Convertible Senior Notes for cash at any time on or after December 22, 2011 at a redemption price equal to 100% of the principal amount of the notes plus accrued interest. Holders may convert their notes into cash and shares of the Company's common stock, if any, at a conversion rate of 47.5715 shares per $1,000 principal amount of Convertible Senior Notes (equal to a conversion price of approximately $21.02 per share), during specified periods, if the price of the Company's common stock reaches, or the trading price of the convertible notes falls below, specified thresholds, or upon the event of certain Company transactions. Upon conversion, the Company would deliver cash to the lesser of the aggregate principal amount of Convertible Senior Notes to be converted and our conversion obligation, in common shares. Upon certain corporate transactions, the Company may issue additional shares based on the date the corporate transaction becomes effective and the price of the Company's common stock. If the market price of common stock exceeds the conversion price, the Company is required to use the treasury stock method in calculating diluted earinings per share for the number of shares to be issued for the excess value. On July 30, 2005 the market value of the convertible senior notes was over the $1,000 par value selling at $1,329.92 trading on the PORTAL (Private Offering Resale and Trading through Automated Linkage).

On December 14, 2004, the Company entered into a Senior Credit Facility with a number of banks. The $250 million Senior Credit Facility consists of a $150 million revolving credit facility and a $100 million term loan. The Senior Credit Facility will mature five years after it is entered into, subject to customary rollover and exchange provisions, which may extend the maturity of the loans under the Senior Credit Facility and the senior exchange note into which they are converted to up to seven years. In addition to customary financial and non-financial covenants, the Senior Credit Facility will limit the Company's ability to use borrowings under that facility to pay any cash payable on a conversion of the notes and will prohibit the Company from making any cash payments on the conversion of the notes if a default or event of default has occurred under that facility without the consent of the lenders under the senior credit facility. As of July 30, 2005, the Company has repaid $90 million of the term loan, which included a voluntary principal prepayment of $85 million, leaving a balance of $10 million (the term loan was paid off in full with a voluntary payment of $10 million made in September 2005). As of the date of this filing, the Company has not borrowed any funds under the $150 million revolving credit facility.

In connection with the issuance of the Convertible Senior Notes and the Senior Credit Facility, the Company incurred approximately $4.0 million in underwriting costs and $4.1 million in professional fees. Such fees were deferred and included in "Other assets" on the accompanying condensed consolidated balance sheets at July 30, 2005 and are being amortized to interest expense over the life of the Notes and the Senior Credit facility, respectively.

In connection with the purchase of the Suffern facility, Dunnigan Realty, LLC, ("Dunnigan") in July 2003, borrowed $34 million under a 5.33% rate mortgage loan. The Dunnigan Realty, LLC mortgage loan (the "mortgage") is collateralized by a mortgage lien on the Suffern facility, of which the major portion is the Company's corporate offices and distribution center. Payments of principal and interest on the mortgage, a 20-year fully amortizing loan, are due monthly through July 2023. In connection with the mortgage, the Company paid approximately $1.7 million in debt issuance costs. These costs were deferred and included in "Other assets" on the condensed consolidated balance sheets and are being amortized to interest expense over the life of the mortgage.

Long-term debt consists of the following:

	July 30, 2005	July 31, 2004
(Amounts in thousands)		
Dunnigan Realty, LLC mortgage loan	**$ 31,989**	$33,021
Convertible Senior Notes	**$115,000**	—
Senior Secured Credit Facility	**$ 10,000**	—
	156,989	33,021
Less: current portion	**(1,089)**	(1,033)
Total	**$155,900**	$31,988

Scheduled principal payments of the above debt for each of the next five fiscal years and beyond is as follows: $1.1 million, $1.1 million, $1.2 million, $1.3 million, $1.3 million, and $150.9 million, respectively.

Interest expense relating to the above debt was approximately $6.3 million and $1.8 million for the fiscal year ended July 30, 2005 and July 31, 2004, respectively.

6. EARNINGS PER SHARE

Basic earnings per share are computed based upon the weighted average number of common shares outstanding. The computation of diluted earnings per share assumes the foregoing and exercise of all stock options (see Note 11) using the treasury stock method on conversion of the Senior Convertible Notes, to the extent dilutive. Diluted earnings per share are computed based upon the weighted average number of common and common equivalent shares outstanding. Common equivalent shares outstanding consist of shares covered by stock options and the Convertible Senior Notes (see Note 5), to the extent dilutive.

A reconciliation of basic and diluted weighted average number of common shares outstanding is presented below:

	July 30, 2005	July 31, 2004	July 26, 2003
(Amounts in thousands)			
Weighted average number of common shares outstanding—basic	**29,785**	29,413	31,219
Net effect of dilutive common stock equivalents that include stock options and convertible securities based on the treasury stock method using the average market price	**794**	707	723
Weighted average number of common shares outstanding—diluted	**30,579**	30,120	31,942

The Senior Convertible Notes were not dilutive at July 30, 2005 as the average price of the Company's stock was less than the conversion price of the Senior Convertible Notes (see Note 5), in accordance with EITF 04-8.

Common stock equivalents of 26,100, 2,000 and 170,000 for the fiscal years ended July 30, 2005, July 31, 2004 and July 26, 2003, respectively, were excluded because such common stock equivalents were anti-dilutive.

7. LITIGATION

In 2003, after a trial in the Superior Court of Connecticut, Waterbury District, a jury returned a verdict of $30 million of compensatory damages against the Company. The court then entered a judgment of approximately $32 million in compensatory damages and expenses, which was subject to post-judgment interest. In addition to the original litigation charge of $32 million recorded in Fiscal 2003, the Company accrued interest and other amounts of approximately $3.3 million in the consolidated statement of earnings in Fiscal 2004. In July 2005, the Supreme Court of Connecticut's decision to reverse the judgment against the Company had become final. Upon the Supreme Court of Connecticut's decision reversing the judgment described above, approximately $35.3 million of previously recognized litigation charges were reversed in the consolidated statement of earnings in Fiscal 2005 and amounts held in the escrow account established in connection with the Company's appeal were released.

The Company is involved in various routine legal proceedings incident to the ordinary course of business. There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

8. EMPLOYEE BENEFIT PLANS

The Company sponsors a defined contribution retirement savings plan (401(k)) covering all eligible employees. The Company also sponsors an Executive Retirement Plan for certain officers and key executives. Both plans allow participants to defer a portion of their annual compensation and receive a matching employer contribution on a portion of that deferral. During Fiscal 2005, 2004 and 2003, the Company incurred expenses of $1,811,000, $1,815,000, and $1,363,000, respectively, relating to the contributions to and administration of the above plans. The Company also sponsors an Employee Stock Purchase Plan, which allows employees to purchase shares of Company stock during each quarterly offering period at a 10% discount through weekly payroll deductions. The Company does not provide any additional postretirement benefits.

9. INCOME TAXES

The components of the provision for income taxes were as follows:

Fiscal Year Ended	**July 30, 2005**	July 31, 2004	July 26, 2003
(Amounts in thousands)			
Federal:			
Current	**$ 4,901**	$10,268	$ 7,772
Deferred	**22,283**	1,603	(4,778)
	27,184	11,871	2,994
State:			
Current	**1,512**	1,782	2,138
Deferred	**4,504**	888	(1,093)
	6,016	2,670	1,045
Provision for income taxes	**$33,200**	$14,541	$ 4,039

Significant components of the Company's deferred tax assets and liabilities were as follows:

	July 30, 2005	July 31, 2004
(Amounts in thousands)		
Deferred tax assets:		
Inventory capitalization and inventory-related items	**$ 1,764**	$ 4,121
Capital loss carryover	**—**	85
Employee benefits	**4,624**	3,050
Litigation accrual	**—**	14,248
Other items	**9,991**	15,605
Total deferred tax assets	**16,380**	37,109
Deferred tax liabilities:		
Depreciation	**20,254**	20,489
Intangibles	**3,703**	—
Other items	**3,267**	1,690
Total deferred tax liabilities	**27,224**	22,179
Valuation allowance	**—**	(85)
Net deferred tax (liabilities)/assets	**$(10,845)**	$14,845

The Fiscal 2005 total net deferred tax liability is presented on the balance sheet as a current liability of $3.6 million and a long-term liability of $7.2 million. For Fiscal 2004, the net deferred tax asset is presented on the balance sheet as a current asset of $14.8 million. The Company successfully resolved several State and Federal audits during Fiscal 2004 and Fiscal 2003, resulting in benefits to its tax provision for approximately $2.0 million for Fiscal 2004 and $2.7 million for Fiscal 2003.

Following is a reconciliation of the statutory Federal income tax rate and the effective income tax rate applicable to earnings before income taxes:

Fiscal Year Ended	**July 30, 2005**	July 31, 2004	July 26, 2003
Statutory tax rate	**35.0%**	35.0%	35.0%
State taxes—net of federal benefit	**4.6%**	3.8%	6.1%
Valuation allowance—loss carryforward	**—**	—	25.7%
Provision adjustment—resolution of tax audits	**—**	(4.5)%	(25.7)%
Other—net, primarily tax-free interest	**(0.9)%**	(2.3)%	(5.1)%
Effective tax rate	**38.7%**	32.0%	36.0%

10. COMMITMENTS AND CONTINGENCIES

Lease commitments

The Company leases all of its stores. Certain leases provide for additional rents based on percentages of net sales, charges for real estate taxes, insurance and other occupancy costs. Store leases generally have an initial term ranging from 5 to 15 years with one or more 5-year options to extend the lease. Some of these leases have provisions for rent escalations during the initial term. The Company receives rental income and reimbursement for taxes and common area maintenance charges from two tenants that occupy a portion of the Suffern facility that are not affiliated with the Company. The rental income from the other tenants is shown as "other income" on the Company's Consolidated Statements of Earnings.

A summary of occupancy costs follows:

Fiscal Year Ended	**July 30, 2005**	July 31, 2004	July 26, 2003
(Amounts in thousands)			
Base rentals	**$109,632**	$ 91,655	$ 88,807
Percentage rentals	**2,690**	2,761	3,898
Other occupancy costs	**32,547**	30,056	29,069
	144,869	124,472	121,774
Less: Rental income from third parties	**(1,526)**	(1,526)	(779)
Total	**$143,343**	$122,946	$120,995

The following is a schedule of future minimum rentals under noncancellable operating leases as of July 30, 2005, (amounts in thousands):

Fiscal Year	Total
2006	$ 118,944
2007	121,059
2008	127,162
2009	125,079
2010	122,799
Subsequent years	622,599
Total future minimum rentals	$1,237,642

Although the Company has the ability to cancel certain leases if specified sales levels are not achieved, future minimum rentals under such leases have been included in the above table.

Leases with related parties

The Company leases two stores from its Chairman or related trusts. Future minimum rentals under leases with such related parties which extend beyond July 30, 2005, included in the above schedule, are approximately $312,000 annually and in the aggregate $1.7 million. The leases also contain provisions for cost escalations and additional rent based on net sales in excess of stipulated amounts. Rent expense for Fiscal years 2005, 2004 and 2003 under these leases amounted to approximately $335,000, $308,000 and $309,000, respectively.

Contractual obligations and commercial commitments

The estimated significant contractual cash obligations and other commercial commitments at July 30, 2005 are summarized in the following table:

		Payments Due by Period			
Contractual Obligations	Totals	Fiscal 2006	Fiscal 2007–2008	Fiscal 2009–2010	Fiscal 2011 And Beyond
(Amounts in thousands)					
Operating lease obligations	$ 1,237,642	$118,944	$248,221	$ 247,878	$622,599
Mortgage principal and interest	49,816	2,768	5,535	5,535	35,978
Convertible Senior Notes and interest	169,625	2,875	5,750	5,750	155,250
Term loan and interest	12,563	513	1,025	11,025	—
Total	$1,469,646	$125,100	$260,531	$270,188	$813,827

		Amount of Commitment Expiration Period			
Other Commercial Commitments	Totals	Fiscal 2006	Fiscal 2007–2008	Fiscal 2009–2010	Fiscal 2011 And Beyond
(Amounts in thousands)					
Trade letters of credit	$51,504	$51,504	$—	$—	$—
Standby letters of credit	5,247	5,247	—	—	—
Firm purchase orders	294	294	—	—	—
Total	$ 57,045	$ 57,045	$—	$—	$—

In addition to the commitments represented in the above table, the Company enters into a number of cancelable and non-cancelable commitments during the year. Typically, these commitments are for less than a year in duration and are principally focused on the construction of new retail stores and the procurement of inventory. The Company does not maintain any long-term or exclusive commitments or arrangements to purchase merchandise from any single supplier. Preliminary commitments with the Company's private label merchandise vendors typically are made five to seven months in advance of planned receipt date. Substantially all of the Company's merchandise purchase commitments are cancelable up to 30 days prior to the vendor's scheduled shipment date.

11. STOCK-BASED COMPENSATION PLANS

The Company's 2001 Stock Option Plan provides for the granting of either ISO's or non-qualified options to purchase up to 3,000,000 shares of common stock. As of July 30, 2005, there were 1,711,117 shares under the 2001 plan available for future grant. All of the Company's prior stock option plans have expired as to the ability to grant new options.

The exercise price of ISO's granted under any of the option plans may not be less than the market price of the common stock at the date of grant. Generally, all options granted by the Company vest over a five-year period and expire after ten years from the date of grant.

From January 2005 to July 30, 2005, the Company issued 70,500 shares of restricted stock under the 2001 Stock Option Plan. Prior to January 2005, restricted shares did not count against the 2001 Stock Option Plan. Any shares of restricted stock are counted against the shares available for future grant limit as three shares for every restricted share granted. In general, if options are canceled for any reason, or expire or terminate unexpired, the shares covered by such options again become available for grant. If a share of restricted stock is forfeited for any reason, three shares become available for grant. The restricted shares vest over five years. The Company recognized $398,000 of compensation expense in Fiscal 2005, $67,000 of compensation expense in Fiscal 2004, and $265,000 of compensation expense in Fiscal 2003 related to the issuance of restricted stock.

The Company's Employee Stock Purchase Plan allows employees to purchase shares of the Company's common stock during each quarterly offering period at a 10% discount through weekly payroll deductions.

The following table summarizes the activities in all Stock Option Plans and changes during each of the fiscal years presented:

	July 30, 2005		July 31, 2004		July 26, 2003	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding—beginning of year	**2,673,979**	**$10.46**	2,950,495	$ 9.80	2,734,352	$ 8.14
Granted	**532,382**	**16.95**	269,625	13.82	909,883	12.54
Cancelled	**(17,900)**	**9.70**	(81,860)	10.92	(59,200)	8.27
Exercised	**(603,010)**	**9.41**	(464,281)	8.11	(634,540)	6.76
Outstanding end of year	**2,585,451**	**$11.97**	2,673,979	$10.46	2,950,495	$ 9.80
Options exercisable at year-end	**1,022,079**	**$ 8.97**	860,647	$ 8.77	528,208	$ 7.56
Weighted-average fair value of options granted during the year		**$ 7.74**		$ 5.50		$ 5.34

The following table summarizes information about stock options outstanding at July 30, 2005:

Range of Exercise Prices	Number Outstanding as of July 30, 2005	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable as of July 30, 2005	Weighted Average Exercise Price
$ 2.50	94,800	1.0 years	$ 2.50	94,800	$ 2.50
4.27–$ 5.69	33,436	2.5 years	5.03	33,436	5.03
7.03– 10.38	817,875	4.9 years	8.52	573,155	7.90
10.84– 15.90	1,110,658	7.3 years	13.14	320,688	13.23
16.37– 23.37	528,682	9.4 years	16.98	—	—
$ 2.50–$23.37	2,585,451	6.7 years	$11.97	1,022,079	$ 8.97

12. SEGMENTS

Our reportable segments are the **dressbarn** brands, which are used in 552 Combo stores (a combination of **dressbarn** and **dressbarn woman** stores), 182 **dressbarn** stores, 45 **dressbarn woman** stores in 42 states as of July 30, 2005 and the **maurices** brand, which is used in 493 stores in 39 states as of July 30, 2005. The Company completed the acquisition of Maurices Incorporated in January 2005.

The Company's **dressbarn** stores are operated mostly in a combination of **dressbarn** and **dressbarn woman** stores, or Combo stores, which carry **dressbarn** and larger-sized **dressbarn woman** merchandise, as well as freestanding **dressbarn** and **dressbarn woman** stores. The **dressbarn** brands primarily attract female consumers in the mid 30's to mid 50's age range, while **maurices'** fashions are designed to appeal to the 17 to 34 year-old-female as well as the casual apparel needs of the 17 to 34 year-old-male. Substantially all of **maurices'** management team prior to the acquisition continues to manage the daily operations of **maurices**. **maurices** also distributes goods to its stores through a separate distribution center. **maurices** also has separate financial reporting systems from **dressbarn**.

Information on the **dressbarn** and **maurices** brands and the reconciliation to operating earnings, are as follows:

	Fiscal 2005	Fiscal 2004	Fiscal 2003
(Amounts in millions)			
Net sales			
dressbarn and **dressbarn woman** brands	**$ 788.2**	$754.9	$ 707.1
maurices brand	**212.1**	—	—
Consolidated net sales	**$1,000.3**	$754.9	$ 707.1
Operating income			
dressbarn and **dressbarn woman** brands	**$ 76.9**	$ 43.7	$ 7.3
maurices brand	**15.8**	—	—
Consolidated operating income	**92.7**	43.7	7.3
Interest income	**1.8**	2.2	3.3
Interest expense	**(10.2)**	(1.9)	(0.2)
Other income	**1.5**	1.5	0.8
Earnings before provision for income taxes	**$ 85.8**	$ 45.5	$ 11.2
Identifiable assets			
dressbarn and **dressbarn woman** brands	**$ 644.0**	$489.3	$449.8
maurices brand	**72.2**	—	—
Total	**$ 716.2**	$489.3	$449.8
Depreciation and amortization			
dressbarn and **dressbarn woman** brands	**$ 25.1**	$ 23.2	$ 22.3
maurices brand	**9.4**	—	—
Consolidated depreciation and amortization	**$ 34.5**	$ 23.2	$22.3

13. SUBSIDIARY GUARANTOR

The Dress Barn, Inc.'s (as used in this Note, the "Parent Company") $250 million Senior Credit Facility, which consists of a $100 million term loan and a $150 million revolving credit facility, and its Convertible Senior Notes contain provisions that all obligations under the Senior Credit Facility are unconditionally guaranteed by each existing and subsequently acquired or organized subsidiary of the Parent Company, except for Dunnigan Realty LLC.

Presented below are the condensed consolidating balance sheets, statements of earnings and statements of cash flows for the Parent Company, for the Parent Company's guarantor subsidiaries and for the Parent Company's non-guarantor subsidiary for the periods presented herein as required by Rule 3-10 under Regulation S-X.

CONDENSED CONSOLIDATING BALANCE SHEET
as of July 30, 2005

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
(Amounts in thousands)					
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 34,041	$ 5,700	$ 2,693	$ —	$ 42,434
Restricted cash	100	—	—	—	100
Marketable securities and investments	59	24	2	—	85
Merchandise inventories	117,077	50,566	—	—	167,643
Prepaid expenses and other	9,363	3,000	560	—	12,923
Total Current Assets	160,640	59,290	3,255	—	223,185
Property and equipment, net	116,573	75,020	41,105	—	232,698
Intangible assets, net	—	111,243	—	—	111,243
Goodwill	—	132,566	—	—	132,566
Other assets	11,680	3,214	1,659	—	16,553
Investment in subsidiaries	576,234	—	—	(576,234)	—
Due from affiliate	—	312,468	—	(312,468)	—
TOTAL ASSETS	$865,127	$693,801	$46,019	$(888,702)	$716,245
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable—trade	$ 73,675	$ 34,027	$ —	$ —	$ 107,702
Accrued salaries, wages and related expenses	26,806	8,403	—	—	35,209
Other accrued expenses	20,028	13,500	1,709	—	35,237
Customer credits	1,425	11,424	—	—	12,849
Income taxes payable	92	—	—	—	92
Deferred tax liability	3,612	—	—	—	3,612
Current portion of long-term debt	—	—	1,089	—	1,089
Total Current Liabilities	125,638	67,354	2,798	—	195,790
Long-term debt	125,001	—	30,899	—	155,900
Deferred rent and other	41,783	2,411	—	—	44,194
Long-term deferred tax liability	7,233	—	—	—	7,233
Due to affiliate	252,344	60,007	117	(312,468)	—
Total Liabilities	551,999	129,772	33,814	(312,468)	403,117
Commitments and contingencies	—	—	—	—	—
Shareholders' equity	313,128	564,029	12,205	(576,234)	313,128
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$865,127	$693,801	$46,019	$(888,702)	$716,245

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS
for the Fiscal Year Ended July 30, 2005

(Amounts in thousands)	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
Net sales	$788,226	$212,038	$ 6,791	$ (6,791)	$1,000,264
Cost of sales, including:					
Occupancy and buying costs	483,315	141,997	1,609	(5,265)	621,656
Gross profit	304,911	70,041	5,182	(1,526)	378,608
Selling, general and administrative expenses	246,010	63,489	906	(23,654)	286,751
Depreciation and amortization	23,128	9,613	1,716	—	34,457
Litigation	(35,329)	—	—	—	(35,329)
Operating income (loss)	71,102	(3,061)	2,560	22,128	92,729
Interest income	1,506	209	20	—	1,735
Interest expense	(8,357)	—	(1,873)	—	(10,230)
Other income	—	23,654	—	(22,128)	1,526
Equity in earnings of subsidiaries	13,186	—	—	(13,186)	—
Earnings before provision for income taxes	77,437	20,802	707	(13,186)	85,760
Provision for income taxes	24,877	8,049	274	—	33,200
Net earnings	$ 52,560	$ 12,753	$ 433	$(13,186)	$ 52,560

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
for the Fiscal Year Ended July 30, 2005

(Amounts in thousands)	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
Operating Activities:					
Net earnings	$ 52,560	$ 12,753	$ 433	$ (13,186)	$ 52,560
Adjustments to reconcile net earnings to net cash provided by/(used in) operating activities:					
Equity in earnings of subsidiaries	(13,186)	—	—	13,186	—
Depreciation and amortization of property and equipment	23,128	9,613	1,716	—	34,457
Provision for impairment and asset disposals	5,345	791	—	—	6,136
Deferred income tax expense	25,690	—	—	—	25,690
Deferred rent expense and other	1,464	2,411	—	—	3,875
Tax benefit on exercise of unqualified stock options	2,258	—	—	—	2,258
Amortization of debt issuance costs	3,920	—	—	—	3,920
Increase in cash surrender of life insurance	(522)	—	—	—	(522)
Deferred compensation	398	—	—	—	398
Realized (gain)/loss on sales of securities	579	—	—	—	579
Other	(27)	—	27	—	—
Changes in assets and liabilities, net of acquisition:					
Increase in merchandise inventories	(165)	(17,091)	—	—	(17,256)
(Increase) decrease in prepaid expenses and other	(901)	4,798	(117)	—	3,780
(Increase) decrease in other assets	(786)	11	125	—	(650)
(Decrease) increase in due from affiliate	—	(128,485)	—	128,485	—
Increase (decrease) in due to affiliate	117,615	11,320	(450)	(128,485)	—
Increase in accounts payable—trade	6,899	15,975	—	—	22,874
Increase in accrued salaries, wages and related expenses	5,457	2,121	—	—	7,578
Decrease in litigation accrual	(36,128)	-	—	—	(36,128)
(Decrease) increase in other accrued expenses	(1,286)	2,750	964	—	2,428
(Decrease) in customer credits	(718)	(220)	—	—	(938)
(Decrease) in income taxes payable	(5,456)	—	—	—	(5,456)
Total adjustments	133,578	(96,006)	2,265	13,186	53,023
Net cash provided by (used in) operating activities	$186,138	$ (83,253)	$2,698	$ —	$105,583

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (continued)

for the Fiscal Year Ended July 30, 2005

(Amounts in thousands)	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
Investing Activities:					
Acquisition of Maurices Incorporated, net of $982 cash acquired	$(328,305)	$ —	$ —	$—	$(328,305)
Restricted cash	38,561	—	—	—	38,561
Purchases of property and equipment	(25,066)	(6,313)	(2)	—	(31,381)
Sales and maturities of marketable securities and investments	584,086	110,260	—	—	694,346
Purchases of marketable securities and investments	(556,138)	(15,648)	(2)	—	(571,788)
Net cash (used in) provided by investing activities	(286,862)	88,299	(4)	—	(198,567)
Financing Activities:					
Proceeds from long-term debt	215,000	—	—	—	215,000
Repayment of long-term debt	(90,000)	—	(1,033)	—	(91,033)
Payment of debt financing costs	(8,122)	—	—	—	(8,122)
Purchase of treasury stock	(1,584)	—	—	—	(1,584)
Proceeds from Employee Stock Purchase Plan	136	—	—	—	136
Proceeds from stock options exercised	5,880	—	—	—	5,880
Net cash provided by (used in) financing activities	121,310	—	(1,033)	—	120,277
Net increase in cash and cash equivalents	20,586	5,046	1,661	—	27,293
Cash and cash equivalents—beginning of period	13,455	654	1,032	—	15,141
Cash and cash equivalents—end of period	$ 34,041	$ 5,700	$ 2,693	$—	$ 42,434

CONDENSED CONSOLIDATING BALANCE SHEET

as of July 31, 2004

(Amounts in thousands)	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 13,455	$ 654	$ 1,032	$ —	$ 15,141
Restricted cash	38,661	—	—	—	38,661
Marketable securities and investments	28,639	94,061	—	—	122,700
Merchandise inventories	116,912	—	—	—	116,912
Deferred tax asset	14,845	—	—	—	14,845
Prepaid expenses and other	8,445	10	443	—	8,898
Total Current Assets	220,957	94,725	1,475	—	317,157
Property and equipment, net	117,278	3,107	42,819	—	163,204
Intangible assets, net	—	—	—	—	—
Goodwill	—	—	—	—	—
Other assets	7,169	2	1,784	—	8,955
Investment in subsidiaries	233,159	—	—	(233,159)	—
Due from affiliate	—	183,983	—	(183,983)	—
TOTAL ASSETS	$578,563	$281,817	$46,078	$(417,142)	$489,316

CONDENSED CONSOLIDATING BALANCE SHEET (continued)

as of July 31, 2004

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
(Amounts in thousands)					
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities:					
Accounts payable—trade	$ 66,776	$ —	$ —	$ —	$ 66,776
Accrued salaries, wages and related expenses	21,349	—	—	—	21,349
Litigation accrual	36,128	—	—	—	36,128
Other accrued expenses	18,613	4,889	745	—	24,247
Customer credits	2,143	6,827	—	—	8,970
Income taxes payable	5,548	—	—	—	5,548
Current portion of long-term debt	—	—	1,033	—	1,033
Total Current Liabilities	150,557	11,716	1,778	—	164,051
Long-term debt	—	—	31,988	—	31,988
Deferred rent	40,319	—	—	—	40,319
Long-term deferred tax liability	—	—	—	—	—
Due to affiliate	134,729	48,687	567	(183,983)	—
Total Liabilities	325,605	60,403	34,333	(183,983)	236,358
Commitments and Contingencies	—	—	—	—	—
Shareholders' Equity	252,958	221,414	11,745	(233,159)	252,958
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$578,563	$281,817	$46,078	$(417,142)	$489,316

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

for the Fiscal Year Ended July 31, 2004

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
(Amounts in thousands)					
Net sales	$754,903	$ —	$ 6,468	$ (6,468)	$754,903
Cost of sales, including occupancy and buying costs	463,629	12,137	1,374	(4,942)	472,198
Gross profit	291,274	(12,137)	5,094	(1,526)	282,705
Selling, general and administrative expenses	226,575	7,752	797	(22,647)	212,477
Depreciation and amortization	21,255	226	1,716	—	23,197
Litigation	3,329	—	—	—	3,329
Operating income (loss)	40,115	(20,115)	2,581	21,121	43,702
Interest income	761	1,442	1	—	2,204
Interest expense	(1)	—	(1,958)	—	(1,959)
Other income	—	22,647	—	(21,121)	1,526
Equity in earnings of subsidiaries	2,919	—	—	(2,919)	—
Earnings before provision for income taxes	43,794	3,974	624	(2,919)	45,473
Provision for income taxes	12,862	1,451	228	—	14,541
Net earnings	$ 30,932	$ 2,523	$ 396	$ (2,919)	$ 30,932

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

for the Fiscal Year Ended July 31, 2004

	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
(Amounts in thousands)					
Operating Activities:					
Net earnings	$ 30,932	$ 2,523	$ 396	$ (2,919)	$ 30,932
Adjustments to reconcile net earnings to net cash provided by operating activities:					
Equity in earnings of subsidiaries	(2,919)	—	—	2,919	—
Depreciation and amortization of property and equipment	21,255	226	1,716	—	23,197
Provision for impairment and asset disposals	4,906	—	—	—	4,906
Deferred income tax expense	2,491	—	—	—	2,491
Deferred rent expense	1,351	—	—	—	1,351
Tax benefit on exercise of unqualified stock options	1,460	—	—	—	1,460
Amortization of debt issuance costs	152	—	—	—	152
Increase in cash surrender of life insurance	(600)	—	—	—	(600)
Deferred compensation	—	67	—	—	67
Realized loss/(gain) on sales of securities	(15)	—	—	—	(15)
Changes in assets and liabilities:					
Increase in merchandise inventories	(6,564)	—	—	—	(6,564)
(Increase) decrease in prepaid expenses and other	(2,831)	(10)	1,326	—	(1,515)
(Increase) decrease in other assets	1,899	—	(1,691)	—	208
Increase in due from affiliate	—	(13,755)	—	13,755	—
Increase (decrease) in due to affiliate	2,774	11,753	(772)	(13,755)	—
Increase in accounts payable—trade	1,686	—	—	—	1,686
Increase in accrued salaries, wages and related expenses	2,467	—	—	—	2,467
Increase in litigation accrual	536	—	—	—	536
(Decrease) increase in other accrued expenses	(4,443)	1,115	220	—	(3,108)
(Decrease) increase in customer credits	(5,141)	6,827	—	—	1,686
Decrease in income taxes payable	(1,540)	—	—	—	(1,540)
Total adjustments	16,924	6,223	799	2,919	26,865
Net cash provided by operating activities	47,856	8,746	1,195	—	57,797
Investing Activities:					
Restricted cash	(38,661)	—	—	—	(38,661)
Purchases of property and equipment	(33,702)	(164)	(1)	—	(33,867)
Sales and maturities of marketable securities and investments	219,051	39,662	—	—	258,713
Purchases of marketable securities and investments	(220,072)	(47,889)	—	—	(267,961)
Purchases of long-term investments	(900)	—	—	—	(900)
Net cash (used in) provided by investing activities	(74,284)	(8,391)	(1)	—	(82,676)
Financing Activities:					
Repayment of long-term debt	—	—	(979)	—	(979)
Payment (to) from affiliate	1,246	—	(1,246)	—	—
Payment of debt financing costs	(90)	—	—	—	(90)
Purchase of treasury stock	(313)	—	—	—	(313)
Proceeds from Employee Stock Purchase Plan	84	(1)	—	—	83
Proceeds from stock options exercised	3,768	—	—	—	3,768
Net cash provided by (used in) financing activities	4,695	(1)	(2,225)	—	2,469
Net increase (decrease) in cash and cash equivalents	(21,733)	354	(1,031)	—	(22,410)
Cash and cash equivalents—beginning of period	35,188	300	2,063	—	37,551
Cash and cash equivalents—end of period	$ 13,455	$ 654	$ 1,032	$ —	$ 15,141

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS

for the Fiscal Year Ended July 26, 2003

(Amounts in thousands)	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
Net sales	$707,121	$ —	$3,274	$ (3,274)	$ 707,121
Cost of sales, including occupancy and buying costs	443,544	9,630	900	(2,495)	451,579
Gross profit	263,577	(9,630)	2,374	(779)	255,542
Selling, general and administrative expenses	207,557	7,250	411	(21,213)	194,005
Depreciation and amortization	21,148	256	858	—	22,262
Litigation charge	32,000	—	—	—	32,000
Operating income (loss)	2,872	(17,136)	1,105	20,434	7,275
Interest income	1,181	2,151	—	—	3,332
Interest expense	—	—	(164)	—	(164)
Other income	—	21,213	—	(20,434)	779
Equity in earnings of subsidiaries	4,577	—	—	(4,577)	—
Earnings before provision for income taxes	8,630	6,228	941	(4,577)	11,222
Provision for income taxes	1,447	2,253	339	—	4,039
Net earnings	$ 7,183	$ 3,975	$ 602	$ (4,577)	$ 7,183

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

for the Fiscal Year Ended July 26, 2003 (as restated, see Note 3)

(Amounts in thousands)	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
Operating Activities:					
Net earnings	$ 7,183	$ 3,975	$ 602	$ (4,577)	$ 7,183
Adjustments to reconcile net earnings to net cash provided by/(used in) operating activities:					
Equity in earnings of subsidiaries	(4,577)	—	—	4,577	—
Depreciation and amortization of property and equipment	21,148	256	858	—	22,262
Provision for impairment and asset disposals	1,539	—	—	—	1,539
Deferred income tax expense	(5,871)	—	—	—	(5,871)
Deferred rent expense	1,899	—	—	—	1,899
Tax benefit on exercise of unqualified stock options	1,381	—	—	—	1,381
Amortization of debt issuance costs	—	—	—	—	—
Increase in cash surrender of life insurance	(1,060)	—	—	—	(1,060)
Deferred compensation	265	—	—	—	265
Realized loss/(gain) on sales of securites	(608)	—	—	—	(608)
Changes in assets and liabilities:					
Decrease in merchandise inventories	3,023	—	—	—	3,023
Increase in prepaid expenses and other	(2,021)	—	(1,769)	—	(3,790)
(Increase) decrease in other assets	549	—	(93)	—	456
Increase in due from affiliate	—	(43,617)	—	43,617	—
Increase in due to affiliate	32,244	10,034	1,339	(43,617)	—
Increase in accounts payable—trade	1,056	—	—	—	1,056
Increase in accrued salaries, wages and related expenses	793	—	—	—	793
Increase in litigation accrual	31,544	—	—	—	31,544
Increase in other accrued expenses	140	148	525	—	813
Increase in customer credits	634	—	—	—	634
Decrease in income taxes payable	(1,568)	—	—	—	(1,568)
Total adjustments	80,510	(33,179)	860	4,577	52,768
Net cash provided by/(used in) operating activities	$87,693	$(29,204)	$ 1,462	$ —	$59,951

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (continued)

for the Fiscal Year Ended July 26, 2003 (as restated, see Note 3)

(Amounts in thousands)	Parent Company	Guarantor Subsidiaries	Non-guarantor Subsidiary	Eliminations	Consolidated
Investing Activities:					
Purchases of property and equipment	$ (67,053)	$ (18)	$ —	$—	$ (67,071)
Sales and maturities of marketable securities and investments	222,229	182,201	—	—	404,430
Purchases of marketable securities and investments	(206,201)	(153,078)	—	—	(359,279)
Net cash (used in) provided by investing activities	(51,025)	29,105	—	—	(21,920)
Financing Activities:					
Proceeds from long-term debt	—	—	34,000	—	34,000
Repayment of long-term debt	(1,730)	—	—	—	(1,730)
Payment (to) from affiliate	33,399	—	(33,399)	—	—
Purchase of treasury stock	(120,819)	—	—	—	(120,819)
Proceeds from Employee Stock Purchase Plan	88	—	—	—	88
Proceeds from stock options exercised	4,291	—	—	—	4,291
Net cash provided by (used in) financing activities	(84,771)	—	601	—	(84,170)
Net increase (decrease) in cash and cash equivalents	(48,103)	(99)	2,063	—	(46,139)
Cash and cash equivalents— beginning of period	83,291	399	—	—	83,690
Cash and cash equivalents— end of period	$ 35,188	$ 300	$ 2,063	$—	$ 37,551

14. SUBSEQUENT EVENT

On August 29-30, 2005, Hurricane Katrina caused extensive damage to portions of the southeast United States, including areas where certain of the Company's retail stores are located. The Company carries property and casualty insurance with deductibles on its retail store locations, and is currently assessing the impact of the hurricane on its stores located within the affected areas as well as actions it may take with respect to its affected associates, its business, and other consequences of the hurricane. We believe the effect of the hurricane on September 2005 sales was approximately $1 million or less than 1% on overall comparable store sales for that month. We currently have six stores closed, including two with significant damage. We had approximately 20 other store closings for a period of time ranging from two days to two weeks. The Company does not believe that the related costs will have a significant impact on the Company's financial position or results of operations.

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Fiscal Year Ended July 30, 2005 (2)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
(Amounts in thousands, except per share data)				
Net sales	**$307,052**	**$295,958**	**$200,138**	**$197,116**
Gross profit, including occupancy and buying costs	**119,330**	**111,972**	**74,602**	**72,704**
Provision for income taxes	**21,952**	**6,197**	**942**	**4,109**
Net earnings	**33,581**	**10,193**	**1,637**	**7,149**
Earnings per share (1)				
Basic	**$1.12**	**$0.34**	**$0.06**	**$0.24**
Diluted	**$1.08**	**$0.33**	**$0.05**	**$0.24**

Fiscal Year Ended July 31, 2004	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
(Amounts in thousands, except per share data)				
Net sales	$207,975	$183,331	$171,053	$192,544
Gross profit, including occupancy and buying costs	82,794	65,194	64,932	69,785
Provision for income taxes	4,783	3,169	2,769	3,820
Net earnings	13,806	5,514	4,820	6,792
Earnings per share (1)				
Basic	$0.47	$0.19	$0.16	$0.23
Diluted, previously reported	$0.46	$0.19	$0.16	$0.23
Diluted, as restated (see Note 3)	$0.45	$0.19	$0.16	$0.23

(1) Earnings per share is computed independently for each period presented. As a result, the total of the per share earnings for the four quarters does not equal the annual earnings per share.
(2) Includes the impact of the acquisition of Maurices Incorporated. See Note 2 to the consolidated financial statements.

Market Prices of Common Stock

The Common Stock of The Dress Barn, Inc. is quoted on the NASDAQ National Market under the symbol DBRN.

The table below sets forth the high and low closing prices as reported on the NASDAQ National Market for the last eight fiscal quarters.

	Fiscal 2005		Fiscal 2004	
	High	**Low**	High	Low
Fiscal Period				
First Quarter	$19.45	$15.41	$14.53	$12.30
Second Quarter	$19.49	$15.19	$15.86	$13.90
Third Quarter	$20.75	$16.51	$18.72	$14.74
Fourth Quarter	$24.93	$16.73	$18.10	$15.56

Number of Holders of Record

As of September 27, 2005, we had approximately 270 holders of record of our common stock.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain our future earnings and available cash to fund the growth of our business and do not expect to pay dividends in the foreseeable future. However, payment of dividends is within the discretion of our Board of Directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plans as of July 30, 2005.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,585,451	$11.97	1,711,117
Equity compensation plans not approved by security holders	—	—	—
Total	2,585,451	$11.97	1,711,117

Issuer Purchases of Equity Securities (1)

Quarter Ending July 30, 2005

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)
May 1, 2005 through May 28, 2005	—	N/A	—	1,979,857
May 29, 2005 through July 2, 2005	—	N/A	—	1,979,857
July 3, 2005 through July 30, 2005	—	N/A	—	1,979,857

(1) The Company has a $75 million Stock Buyback Program (the "Program") which was originally announced on April 5, 2001. Under the Program, the Company may repurchase its shares from time to time, either in the open market or through private transactions, whenever it appears prudent to do so. The remaining authorized amount for stock repurchases under the Program was $48 million. The Program has no expiration date.

(2) Based on the closing price of $24.38 per share at July 29, 2005.

Directors, Officers & Key Management

DIRECTORS

Elliot S. Jaffe
Co-Founder & Chairman

David R. Jaffe
President &
Chief Executive Officer

Burt Steinberg
Executive Director

Roslyn S. Jaffe
Co-Founder,
Secretary & Treasurer

Kate Buggeln (1) (2)
Governing Board
Business Council for Peace

Klaus Eppler
Pensioned Partner
Proskauer Rose LLP

Marc Lasry (3)
Founding & Managing Partner
Avenue Capital Group

Edward D. Solomon (1) (2)
President
Edward D. Solomon & Co.

John Usdan (1) (2) (3)
President
Midwood Management
Corporation

(1) Member, Compensation and Stock Option Committee
(2) Member, Audit Committee
(3) Member, Nominating Committee

DRESSBARN, INC. CORPORATE OFFICERS

Elliot S. Jaffe
Co-Founder & Chairman

David R. Jaffe
President &
Chief Executive Officer

Vivian Behrens
Senior Vice President &
Chief Marketing Officer

Armand Correia
Senior Vice President &
Chief Financial Officer

Gene Wexler
Senior Vice President &
Chief Corporate Counsel

Reid Hackney
Vice President
Finance & Controller

dressbarn OFFICERS AND KEY MANAGEMENT

Keith Fulsher
Executive Vice President &
Chief Merchandising Officer

Eric Hawn
Senior Vice President
Store Operations

Elise Jaffe
Senior Vice President
Real Estate

Vice Presidents

Tanzim Ahmad
Merchandise Planning

Carol Dauman
Business Development

Joseph M. Forbidussi
Merchandising

Phillip Giusto
Chief Information Officer

Mary Ann Molinari
Merchandising

David Montieth
Human Resources

William Nelson
Merchandising

Corinne Salfeety
Merchandising

Arthur L. Senn
Asset Protection

Richard Sosnovy
Real Estate

Arthur Ziluck
Merchandising

Assistant Vice Presidents

James Bath
Information Technology

Trudy Chianciola
Store Operations

Ivonne Clayton
Imports and Payables

Kim Collins
Store Operations

Curt Correll
Technical Services

Mary Beth Daniels
Customer Relationship
Management

Charles DeCesare
Creative Director

Madalyn Fichtner
Store Operations

Pattra Gahan
Store Operations

William Ilko
Information Technology

Elizabeth Jones
Store Administration

Donna Kanzler
Corporate Taxation

Lisa Krizek
Lease Administration

Jodie S. Levenson
Store Operations

Carmen Lorenzano
Store Operations

Shannon McGinty
Store Operations

R. Christopher Minor
Assistant Controller

Annette Pedersen
Store Operations

Candy Roberts
Store Operations

Jeffrey C. Ross
Operations

Nancy Seaboldt
Information Technology

Donald Smith
Distribution Operations

Isabella Spiegel
Human Resources

M. Veronica Valladares
Marketing

Claudia Verhaeg
Store Operations

maurices OFFICERS AND KEY MANAGEMENT

Lisa Rhodes
Executive Vice President &
Chief Merchandising Officer

George Goldfarb
Senior Vice President &
Chief Financial Officer

Mike Machones
Vice President
Information Technology &
Logistics

Sue Ross
Vice President
Human Resources

John Schroeder
Vice President
Store Operations

Key Management Team

Jon Anderson
Information Technology

Ruth Berger
Marketing

Mary Bradley
Merchandising

Julie Gaskill
Regional Sales Manager

Mike Herrick
Planning and Allocation

Al Johnson
Regional Sales Manager

Tom Karis
Real Estate

Don Kneepkens
Store Planning

Jeanne Kucera
Human Resources

Tim McGrath
Distribution Center

Melissa Moriarty
Merchandising

Mark Sutton
Regional Sales Manager

Brian Thun
Controller

Larry Tilleskjor
Merchandising

Corporate Information

ANNUAL MEETING
The Annual Meeting of the Stockholders of the Company will be held:
November 30, 2005
The Dress Barn, Inc.
30 Dunnigan Drive
Suffern, New York 10901

FORM 10-K
A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended July 30, 2005 will be provided to stockholders upon written request to:

Investor Relations
The Dress Barn, Inc.
30 Dunnigan Drive
Suffern, New York 10901

TRANSFER AGENT & REGISTRAR
Communications concerning shareholder records, the transfer of shares, lost certificates or change of address should be directed to:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

GENERAL COUNSEL
Proskauer Rose LLP
1585 Broadway
New York, New York 10036

INDEPENDENT AUDITORS
Deloitte & Touche LLP
Two World Financial Center
New York, New York 10281

dressbarn, inc.

The Dress Barn, Inc.
30 Dunnigan Drive
Suffern, New York 10901