

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

Quarter Ended August 4, 2001

Commission File Number 0-15898

DESIGNS, INC.
(Exact name of registrant as
specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-2623104
(IRS Employer Identification No.)

66 B Street, Needham, MA
(Address of principal executive offices)

02494
(Zip Code)

(781) 444-7222
(Registrant's telephone
number, including area code)

Indicate by "X" whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of September 1, 2001
Common	14,490,809

DESIGNS, INC.
CONSOLIDATED BALANCE SHEETS
August 4, 2001 and February 3, 2001
(In thousands, except share data)

	August 4, 2001 (unaudited)	February 3, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	899	18
Inventories	69,662	57,675
Deferred income taxes	765	765
Prepaid expenses	2,866	3,093
Total current assets	74,192	61,551
Property and equipment, net of accumulated depreciation and amortization	20,297	18,577
Other assets:		
Deferred income taxes	14,300	14,347
Other assets	621	595

Total assets	\$ 109,410	\$ 95,070
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,562	\$ 6,280
Accrued expenses and other current liabilities	16,679	11,392
Accrued rent	2,437	2,376
Reserve for severance and store closings	398	852
Notes payable	31,000	24,345
	-----	-----
Total current liabilities	60,076	45,245
	-----	-----
Stockholders' equity:		
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, none issued	-	-
Common Stock, \$0.01 par value, 50,000,000 shares authorized, 17,517,081 and 17,488,000 shares issued at August 4, 2001 and February 3, 2001, respectively	175	175
Additional paid-in capital	55,861	55,697
Retained earnings	1,922	2,577
Treasury stock at cost, 3,035,000 shares at August 4, 2001 and February 3, 2001, respectively	(8,427)	(8,427)
Loan to executive	(197)	(197)
	-----	-----
Total stockholders' equity	49,334	49,825
	-----	-----
Total liabilities and stockholders' equity	\$ 109,410	\$ 95,070
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

DESIGNS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	August 4, 2001	July 29, 2000	August 4, 2001	July 29, 2000
	-----	-----	-----	-----
Sales	\$47,698	\$ 45,693	\$ 87,093	\$ 85,072
Cost of goods sold including occupancy	34,683	32,272	64,673	60,999
	-----	-----	-----	-----
Gross profit	13,015	13,421	22,420	24,073
Expenses:				
Selling, general and administrative	10,065	9,805	19,771	19,550
Depreciation and amortization	1,418	1,325	2,814	2,594
	-----	-----	-----	-----
Total expenses	11,483	11,130	22,585	22,144
	-----	-----	-----	-----
Operating profit(loss)	1,532	2,291	(165)	1,929
Interest expense, net	534	430	1,081	845
	-----	-----	-----	-----
Income(loss) before income taxes	998	1,861	(1,246)	1,084
Provision(benefit) for income taxes	283	777	(591)	474
	-----	-----	-----	-----
Net income(loss)	\$ 715	\$ 1,084	\$ (655)	\$ 610
	=====	=====	=====	=====
Income (loss) per share- Basic	\$ 0.05	\$ 0.07	\$ (0.05)	\$ 0.04
Income (loss) per share- Diluted	\$ 0.05	\$ 0.06	\$ (0.05)	\$ 0.04
Weighted average number of common shares				
outstanding- Basic	14,477	16,502	14,468	16,472
- Diluted	15,524	16,685	14,468	16,560

The accompanying notes are an integral part of the consolidated financial statements.

DESIGNS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	August 4, 2001	July 29, 2000
Cash flows from operating activities:		
Net (loss) income	\$ (655)	\$ 610
Adjustments to reconcile net (loss) income to net cash used for operating activities:		
Depreciation and amortization	2,814	2,594
Issuance of common stock and options	150	116
Gain on sale or disposal of fixed assets	(21)	-
Changes in operating assets and liabilities:		
Accounts receivable	(881)	43
Inventories	(11,987)	(9,837)
Prepaid expenses	227	(127)
Other assets	(74)	71
Reserve for severance and store closings	(454)	(1,792)
Income taxes	47	96
Accounts payable	3,282	4,198
Accrued expenses and other current liabilities	2,788	743
Accrued rent	61	10
Net cash used for operating activities	(4,703)	(3,275)
Cash flows from investing activities:		
Additions to property and equipment	(1,985)	(1,261)
Proceeds from terminated trust	-	2,365
Proceeds from disposal of property and equipment	19	38
Net cash used for investing activities	(1,966)	1,142
Cash flows from financing activities:		
Net borrowings under credit facility	6,655	2,774
Repurchase of common stock	-	(641)
Issuance of common stock under option program	14	-
Net cash provided by financing activities	6,669	2,133
Net change in cash and cash equivalents	-	-
Cash and cash equivalents:		
Beginning of the year	-	-
End of the period	\$ -	\$ -

The accompanying notes are an integral part of the consolidated
financial statements.

DESIGNS, INC.
Notes to Consolidated Financial Statements

1. Basis of Presentation

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial statements. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended February 3, 2001 (included in the Company's Annual Report on Form 10-K, as amended, with the Securities and Exchange Commission). The information set forth in these statements may be subject to normal year-end adjustments. The

information reflects all adjustments that, in the opinion of management, are necessary to present fairly the Company's results of operations, financial position and cash flows for the periods indicated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's business historically has been seasonal in nature and the results of the interim periods presented are not necessarily indicative of the results to be expected for the full year.

2. Change in Accounting for Inventories

In the first quarter of fiscal 2002, the Company changed its method of determining the cost of inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. Management believes that the FIFO method better measures the current value of such inventories and provides a more appropriate matching of revenues and expenses. In the current low-inflationary environment, management believes that the use of the FIFO method more accurately reflects the Company's financial position.

The effect of this change was immaterial to the financial results of the prior reporting periods of the Company and therefore did not require retroactive restatement of results for those prior periods.

3. Boston Trading Ltd., Inc. Litigation

During the first quarter of fiscal 2002, the Company entered into a settlement agreement with Atlantic Harbor, Inc. whereby Atlantic Harbor, Inc. agreed to accept from the Company a cash payment of \$450,000 in settlement of all obligations outstanding under the Purchase Note, with an original principal amount of \$1 million, delivered by the Company in May 1995 in partial payment for certain assets. In exchange, the Company agreed to transfer and assign all trademarks and license agreements acquired as part of the related Purchase Agreement to a new entity in which the Company would have a 15% equity interest, with Atlantic Harbor, Inc. and its affiliates retaining the remaining equity interest. In addition, the Company would also be entitled to receive up to an additional \$150,000 from existing license royalties over the next four years. At February 3, 2001, the Company recorded a gain on settlement of this dispute in the amount of \$550,000, which was included in "Provision for impairment of assets, store closing and severance" on the Consolidated Statements of Operations for the fourth quarter of fiscal 2001.

4. Credit Facility

On December 7, 2000, the Company amended and restated its credit facility with Fleet Retail Finance Inc. (the "Amended Credit Agreement"). The Amended Credit Agreement, among other things, provided for an extension of the credit facility to November 30, 2003, reduced the borrowing costs and tied future interest costs to excess borrowing availability, eliminated all existing financial performance covenants and adopted a minimum availability covenant, increased the amount that can potentially be borrowed by increasing the advance rate formula to 68% from 60% of the Company's eligible inventory, provided the Company the ability to enter into further stock buyback programs and reduced the total commitment from \$50 million to \$45 million. Under the Amended Credit Facility, the Company is also able to issue documentary and standby letters of credit up to \$10 million. The Company's obligations under the Amended Credit Agreement continue to be secured by a lien on all of its assets. The Company is subject to a prepayment penalty for the first two years of the extended facility. The Amended Credit Agreement continues to include certain covenants and events of default customary for credit facilities of this nature, including change of control provisions and limitations on payment of dividends by the Company.

At August 4, 2001, the Company had borrowings of approximately \$31.0 million outstanding under this credit facility and had three outstanding standby letters of credit totaling approximately \$2.3 million. Average borrowings outstanding under this facility during the first six months of fiscal 2002 were approximately \$29.8 million. The Company had average unused excess availability under this facility of approximately \$8.7 million during the first six months of fiscal 2002, and unused availability of \$7.6 million at August 4, 2001. The Company was in compliance with all debt covenants under the Amended Credit Agreement at August 4, 2001.

5. Earnings Per Share

Statement of Financial Accounting Standards No. 128, "Earnings Per Share" requires the computation of basic and diluted earnings per share. Basic earnings per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the respective

period. Diluted earnings per share is determined by giving effect to the exercise of stock options using the treasury stock method. The following table provides a reconciliation of the number of shares outstanding for basic and diluted earnings per share.

(In thousands)	For the			
	three months ended August 4, 2001	July 29, 2000	six months ended August 4, 2001	July 29, 2000
Basic weighted average common shares outstanding	14,477	16,502	14,468	16,472
Stock options, excluding the effect of anti-dilutive options for 852 shares for the six months ended August 4, 2001	1,047	183	--	88
Diluted weighted average shares outstanding	15,524	16,685	14,468	16,560

Options to purchase 150,600 shares of the Company's common stock for the three and six months ended August 4, 2001 and 247,200 shares of the Company's Common Stock for the three and six months ended July 29, 2000, were excluded from the computation of diluted earnings per share because the exercise price of the options was greater than the average market price per share of Common Stock for the periods reported.

6. Related Party Transactions

On May 25, 2001, the Board of Directors approved the extension of the existing consulting agreement with Jewelcor Management Inc. ("JMI") for an additional one-year term commencing on April 29, 2001 and ending on April 28, 2002. As payment for services rendered under this agreement, the Company issued to JMI 61,856 non-forfeitable and fully vested shares of the Company's Common Stock. The fair value of those shares on May 25, 2001, the date of issuance, was \$240,000 or \$3.88 per share. Seymour Holtzman, Chairman of the Board of Directors of the Company, is President and Chief Executive Officer of JMI, and indirectly, with his wife, is the principal beneficial owner of the stock of JMI.

Also on May 25, 2001, the Board of Directors granted to Seymour Holtzman, as Chairman of the Board of Directors and an employee of the Company, an option to purchase an aggregate of 300,000 shares of the Company's Common Stock at an exercise price of \$3.88 per share, equal to the closing price of the Common Stock on that date. The option will vest at a rate of 100,000 shares annually over three years and expires 10 years from the date of grant.

7. Subsequent Event

During the first quarter of fiscal year 1999, the Internal Revenue Service ("IRS") completed an examination of the Company's federal income tax returns for fiscal years 1992 through 1996. Taxes on the adjustments proposed by the IRS, excluding interest, amounted to approximately \$4.9 million. The IRS challenged the fiscal tax years in which various income and expense deductions were recognized, resulting in potential timing differences of previously paid federal income taxes. The Company appealed these proposed adjustments through the IRS appeals process.

On August 25, 2001, the Company and the IRS reached a final settlement on the audit of the Company's federal income tax returns for fiscal years 1992 through 1996. In accordance with this settlement, the Company paid to the IRS a total of \$1.5 million, including interest. The settlement of \$1.5 million had no material impact on the Company's second quarter earnings due to adequate provisions previously established by the Company.

RESULTS OF OPERATIONS

Sales

Sales for the second quarter of fiscal 2002, ended August 4, 2001, were \$47.7 million as compared to sales of \$45.7 million in the second quarter of fiscal 2001, ended July 29, 2000. Sales for the first six months of fiscal 2002, ended August 4, 2001, were \$87.1 million as compared with \$85.1 million for the six months, ended July 29, 2000.

Sales for the thirteen weeks ended August 4, 2001 decreased 1.0% as compared to \$47.9 million for the corresponding thirteen weeks in the prior year which ended August 5, 2000. Sales for the first six months of fiscal year 2002 decreased 1.1% as compared to \$87.9 million for the corresponding twenty-six weeks in the prior year which ended August 5, 2000. Comparable store sales decreased 5 percent and 7 percent, respectively, for the second quarter and year to date periods ended August 4, 2001.

The decrease of 5 percent in comparable store sales for the second quarter was consistent with the Company's business plan and showed marked improvement over the 10 percent comparable store sales decline in the first quarter of fiscal 2002.

Comparable stores are retail locations that have been open at least 13 months. Of the 104 stores that the Company operated at August 4, 2001, 97 were comparable stores.

Gross Profit Margin

Gross profit margin, inclusive of occupancy costs, was 27.3% for the second quarter of fiscal 2002 as compared to 29.4% in the second quarter of the prior year. Merchandise margins decreased 2.1 percentage points for the second quarter of fiscal 2002 as compared to the second quarter of the prior year.

For the six months ended August 4, 2001, gross profit margin, inclusive of occupancy costs, was 25.7% as compared to 28.3% in the corresponding six months of the prior year. Merchandise margins decreased 2.6 percentage points for the six month period ended August 4, 2001 as compared to the first six months of the prior year.

The decrease in merchandise margins for the second quarter and six month period is due to several factors, principally:

1. decreasing initial margins resulting from an increase in lower merchandise margin product mix;
2. higher promotional markdowns as compared to the prior year; and
3. the fact that prior year margins benefited from significant price reductions funded from reserves previously established.

Merchandise margins were positively impacted by significantly lower inventory losses due to results of the Company's shrinkage control programs.

The Company anticipates that it will experience a similar merchandise margin rate during the remainder of fiscal 2002.

Selling, General and Administrative Expenses

Set forth below is certain information concerning the Company's selling, general and administrative expenses for the three and six months ended August 4, 2001 and July 29, 2000, respectively.

(In thousands, except percentage data)	August 4, 2001		July 29, 2000	
	\$	% of sales	\$	% of sales

For the three months ended:				
Store payroll	\$ 5,467	11.5%	\$ 5,268	11.5%
Other SG&A	\$ 4,598	9.6%	\$ 4,537	9.9%
For the six months ended:				
Store payroll	\$10,453	12.0%	\$ 9,973	11.7%
Other SG&A	\$ 9,318	10.7%	\$ 9,577	11.3%

Store payroll, the largest component of selling, general and administrative expenses, was 11.5 percent and 12.0 percent of sales, respectively, for the three and six months ended August 4, 2001 compared with 11.5 percent and 11.7 percent of sales, respectively, in the prior year periods. Store payroll expense includes the cost of warehouse labor which was 0.6 percent of sales for the three and six months ended August 4, 2001 compared with 0.2 percent of sales for the three and six months ended July 29, 2000. The increase in warehouse

labor was due to the opening of the Company's new distribution center during the third quarter of fiscal 2001.

The decrease in other selling, general and administrative expenses, excluding store payroll, for the three and six months ended August 4, 2001 as compared with the three and six months of the prior year is due primarily to continued cost reduction efforts. On a per store basis, expenses for the first six months of fiscal 2002 have dropped by 4 percent.

Depreciation and Amortization

Set forth below are depreciation and amortization expenses for the Company for the three and six months ended August 4, 2001 and July 29, 2000, respectively.

(In thousands, except percentage data)	August 4, 2001	July 29, 2000	Percentage Change at August 4, 2001
For the three months ended	\$1,418	\$1,325	7.0%
For the six months ended	\$2,814	\$2,594	8.5%

The increase in depreciation and amortization expense for the three and six months ended August 4, 2001 compared to the same periods in the prior year is due to the opening of new stores and the remodeling of existing stores in fiscal 2002 and 2001, in addition to the opening of the Company's new distribution center in the third quarter of fiscal 2001. This increase is partially offset by the write-off of certain fixed assets in fiscal 2001 due to impairments and several assets becoming fully depreciated.

Interest Expense, Net

Net interest expense was \$534,000 and \$430,000 for the three months ended August 4, 2001 and July 29, 2000, respectively. Net interest expense was \$1.1 million and \$845,000 for the six months ended August 4, 2001 and July 29, 2000, respectively. These increases were attributable to higher average borrowing levels under the Company's revolving credit facility for the three and six months ended August 4, 2001 as compared to the same periods in the prior year. These increases were offset slightly by improved borrowing rates as compared to the prior periods.

Net Income (Loss)

Set forth below are the net income(loss) and income(loss) per share, presented on a diluted basis, for the Company for the three and six months ended August 4, 2001 and July 29, 2000, respectively.

(In thousands, except per share data)	August 4, 2001		July 29, 2000	
	\$	per share	\$	per share
For the three months ended	\$ 715	\$ 0.05	\$ 1,084	\$ 0.06
For the six months ended	\$ (655)	\$(0.05)	\$ 610	\$ 0.04

SEASONALITY

Historically, the Company has experienced seasonal fluctuations in revenues and income, exclusive of non-recurring charges, with increases occurring during the Company's third and fourth quarters as a result of "Fall" and "Holiday" seasons. Although the Company's strategic focus has shifted towards its outlet retail business selling exclusively Levi Strauss & Co. product, the Company continues to experience a significant portion of its revenue and income in the second half of the year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs are for working capital, essentially inventory requirements, and capital expenditures. The Company's capital expenditure program includes projects for new store openings, remodeling existing stores, and improvements in its systems infrastructure. In addition, the Company is testing a new store format in a power center location, an alternative retail channel to the outlet retail channel. The Company's sources of funds include operations, trade credit and drawings under its \$45 million bank credit facility.

During the first six months of fiscal 2002, cash used for operations was \$4.7 million as compared to \$3.3 million during last year's first six months. Cash from operations as compared to the prior year decreased by \$1.4 million due primarily to an increase in inventory as a result of opening three new stores and opportunistic purchases of inventory.

At August 4, 2001, total inventory equaled \$69.7 million, compared to \$57.7

million at February 3, 2001. This increase in inventory is seasonal and reflects the receipt of merchandise in preparation for the fall selling seasons, as well as an increase in the number of store locations and certain opportunistic purchases of inventory. The Company stocks its stores with Levi's(r) and Dockers(r) manufacturing overruns, merchandise specifically manufactured for the outlet stores and discontinued lines and irregulars all purchased primarily from Levi Strauss & Co. By its nature, manufacturing overruns, and discontinued or irregular merchandise, including the most popular Levi Strauss & Co. styles of merchandise and the breadth of the mix of this merchandise, are subject to limited availability. The Company continues to evaluate additional opportunities to purchase quantities of Levi's(R), Dockers(R) and Slates(R) brand products.

Total cash outlays for capital expenditures, net of landlord allowances, for the first six months of fiscal 2002 were \$1.9 million compared to \$1.3 million during the first six months of fiscal 2001. During the first six months of fiscal 2002, the Company opened two new Levi's(R)/Dockers(R) stores and two new Dockers(R) stores, both of which were in real estate locations where there were existing Levi's(R) only stores. The Company also remodeled six of its older stores and combined two additional pairs of its standalone Dockers(R) and Levi's(R) outlet stores that were adjacent to each other into two combined Levi's(R)/Dockers(R) stores. By combining the individual stores into one store, the Company was able to reduce total square footage, reduce labor costs and provide a cross-over environment for the brands.

The Company's present plans for expansion for the remainder of fiscal 2002, barring unforeseen circumstances, include remodeling up to an additional two existing outlet stores and opening up to three additional Levi's(R)/Dockers(R) stores, one of which will be located in Puerto Rico.

During the first six months of fiscal 2002, a portion of the Company's cash needs came from borrowings on its bank credit facility. At August 4, 2001, the Company had borrowings of approximately \$31.0 million outstanding under this credit facility and had three additional standby letters of credit totaling approximately \$2.3 million.

Average borrowings outstanding under this credit facility for the first six months of fiscal 2002 were approximately \$29.8 million. The Company had average unused excess availability under this facility of approximately \$8.7 million during the first six months of fiscal 2002, and unused availability of \$7.6 million at August 4, 2001. The Company was in compliance with all debt covenants under this credit facility at August 4, 2001.

The Company's working capital at August 4, 2001 was approximately \$14.1 million, compared to \$16.3 million at February 3, 2001. This decrease in working capital was attributable to capital expenditures incurred for new and remodeled stores.

The foregoing discussion of the Company's results of operations, liquidity, capital resources and capital expenditures includes certain forward-looking information. Such forward-looking information requires management to make certain estimates and assumptions regarding the Company's expected strategic direction and the related effect of such plans on the financial results of the Company. Accordingly, actual results and the Company's implementation of its plans and operations may differ materially from forward-looking statements made by the Company. The Company encourages readers of this information to refer to Exhibit 99 to the Company's Form 8-K, filed with the United States Securities and Exchange Commission on April 28, 2000, which identifies certain risks and uncertainties that may have an impact on future earnings and the direction of the Company.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, the financial position and results of operations of the Company are routinely subject to a variety of risks, including market risk associated with interest rate movements on borrowings. The Company regularly assesses these risks and has established policies and business practices to seek to protect against the adverse effect of these and other potential exposures.

The Company utilizes cash from operations and short-term borrowings to fund its working capital needs. Borrowings under the Company's bank credit agreement, which expires in November 2003, bear interest at variable rates based on FleetBoston, N.A.'s prime rate or the London Interbank Offering Rate ("LIBOR"). These interest rates at August 4, 2001 were 6.75% for prime and rates on varying LIBOR contracts of 5.700% to 5.948%. Based upon sensitivity analysis as of August 4, 2001, a 10% increase in interest rates would result in a potential cost to the Company of approximately \$200,000 on an annualized basis. In addition, the Company has available letters of credit as sources of financing for its working capital requirements.

ITEM 1. Legal Proceedings

The Company is a party to litigation and claims arising in the ordinary course of its business. Management does not expect the results of these actions to have a material adverse effect on the Company's business or financial condition.

In May 1995, the Company purchased from Boston Trading Ltd., Inc. (d/b/a Atlantic Harbor, Inc.) certain assets including various trademarks and license agreements. The terms of the Asset Purchase Agreement, which was dated April 25, 1995 (the "Purchase Agreement"), included the Company delivering a \$1 million promissory note ("Purchase Note") for the balance of the purchase price. The principal amount of the Purchase Note was stated to be payable in two equal annual installments through May 1997. In the first quarter of fiscal 1997, the Company asserted certain indemnification rights under the Purchase Agreement. In accordance with the terms of the Purchase Agreement, the Company, when exercising its indemnification rights, had the right, among other courses of action, to offset against the payment of principal and interest due and payable under the Purchase Note. Accordingly, the Company did not make the two \$500,000 principal payments on the Purchase Note that were due on May 2, 1996 and May 2, 1997. The Company paid all interest on the original principal amount through May 2, 1996 and continued to pay interest thereafter through January 31, 1998 on \$500,000 of principal. In January 1998, Atlantic Harbor, Inc. filed a lawsuit against the Company for failing to pay the outstanding principal amount of the Purchase Note. In March 1998, the Company filed a counterclaim against Atlantic Harbor, Inc. alleging that the Company suffered damages in excess of \$1 million because of the breach of certain representations and warranties made by Atlantic Harbor, Inc. and its stockholders concerning the existence and condition of certain foreign trademark registrations and license agreements.

During the first quarter of fiscal 2002, the Company entered into a settlement agreement with Atlantic Harbor, Inc. whereby Atlantic Harbor, Inc. agreed to accept from the Company a cash payment of \$450,000 in settlement of all obligations under the Purchase Note. In exchange, the Company agreed to transfer and assign all trademarks and license agreements acquired as part of the Purchase Agreement to a new entity in which the Company would have a 15% equity interest, with Atlantic Harbor, Inc. and its affiliates retaining the remaining interest. The Company would also be entitled to receive up to an additional \$150,000 from existing license royalties over the next four years. At February 3, 2001, the Company recorded a gain related to the settlement of this matter in the amount of \$550,000, which was included in "Provision for impairment of assets, store closings and severance" on the Consolidated Statements of Operations.

On August 25, 2001, the Company and the Internal Revenue Service ("IRS") reached a final settlement on the audit of the Company's federal income tax returns for fiscal years 1992 through 1996. In accordance with this settlement, the Company paid the IRS a total of \$1.5 million, including interest. The settlement of \$1.5 million had no material impact on the Company's second quarter earnings due to adequate provisions previously established by the Company.

ITEM 2. Changes in Securities and Use of Proceeds

None.

ITEM 3. Default Upon Senior Securities

None.

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

(a) The Company held its Annual Meeting of Stockholders on July 31, 2001. The matters submitted to a vote of the Company's stockholders were (i) the election of nine directors, (ii) the approval of an amendment to the Company's 1992 Stock Incentive Plan and (iii) the ratification of Ernst & Young LLP as independent auditors for the Company for the current fiscal year.

(b) The Company's stockholders elected nine directors to hold office until the 2002 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified. The results of the voting were as follows:

	FOR	WITHHELD	NON-VOTES
Seymour Holtzman	12,260,409	944,913	--
David A. Levin	12,262,409	942,913	--
Stanley I. Berger	12,236,042	969,280	--
Alan Cohen	12,262,409	942,913	--
Jesse Choper	12,262,409	942,913	--
Robert L. Patron	12,262,209	943,113	--

George T. Porter	12,261,909	943,413	--
Jeremiah P. Murphy, Jr.	12,262,409	942,913	--
Joseph Pennacchio	12,262,209	943,113	--

(c) The Company's stockholders also approved an amendment to the Company's 1992 Stock Incentive Plan to allow the Company to grant options with respect to up to 270,000 shares of its common stock to any individual participant during any fiscal year with an exercise price not less than the fair market value of such stock on the date of grant. The results of the voting were as follows:

For:	11,356,136
Against:	1,810,211
Abstain:	38,975

(d) The Company's stockholders also ratified the selection of Ernst & Young LLP as the Company's independent auditors for the current fiscal year. The results of the voting were as follows:

For:	13,180,867
Against:	16,345
Abstain:	8,110

ITEM 6. Exhibits and Reports on Form 8-K

A. Reports on Form 8-K:

None.

B. Exhibits:

3.1 Restated Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1 to Amendment No. 3 of the Company's Registration Statement on Form S-1 (No. 33-13402), and incorporated herein by reference). *

3.2 Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated June 22, 1993 (included as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q dated June 17, 1996, and incorporated herein by reference). *

3.3 Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of the Company established Series A Junior Participating Cumulative Preferred Stock dated May 1, 1995 (included as Exhibit 3.2 to the Company's Annual Report on Form 10-K dated May 1, 1996 and incorporated herein by reference). *

3.4 By-Laws of the Company, as amended (included as Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q dated December 12, 2000, and incorporated herein by reference). *

10.1 1992 Stock Incentive Plan, as amended

10.2 License Agreement between the Company and Levi Strauss & Co. dated as of April 14, 1992 (included as Exhibit 10.8 to the Company's Annual Report on Form 10-K dated April 29, 1993, and incorporated herein by reference). *

10.3 Amended and Restated Trademark License Agreement between the Company and Levi Strauss & Co. dated as of October 31, 1998 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *

10.4 Amendment to the Amended and Restated Trademark License Agreement dated March 22, 2000 (included as Exhibit 10.7 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *

10.5 Second Amended and Restated Loan and Security Agreement dated as of December 7, 2000 among the Company and Fleet Retail Finance Inc., as agent for the Lender(s) identified therein. (included as Exhibit 10.12 to the Company's Form 10-Q dated October 28, 2000, and incorporated herein by reference). *

10.6 Amendment and Distribution Agreement dated as of October 31, 1998 among the Designs Partner, the LOS Partner and the OLS Partnership (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *

10.7 Guaranty by the Company of the indemnification obligation of

- the Designs Partner dated as of October 31, 1998 in favor of LS & Co. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *
- 10.8 Asset Purchase Agreement between LOS and the Company relating to the sale by the Company of stores located in Minneapolis, Minnesota dated January 28, 1995 (included as Exhibit 10.9 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.9 Asset Purchase Agreement among Boston Trading Ltd., Inc., Designs Acquisition Corp., the Company and others dated April 21, 1995 (included as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference). *
- 10.10 Non-Negotiable Promissory Note between the Company and Atlantic Harbor, Inc., formerly know as Boston Trading Ltd., Inc., dated May 2, 1995 (included as Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference). *
- 10.11 Asset Purchase Agreement dated as of September 30, 1998 between the Company and LOS relating to the purchase by the Company of 16 Dockers(R) Outlet and nine Levi's(R) Outlet stores (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *
- 10.12 Agreement Regarding Leases dated November 2, 2000 between the Company and O.M. 66 B Street LLC (included as Exhibit 10.36 to the Company's Form 10-Q dated October 28, 2000, and incorporated herein be reference). *
- 10.13 Consulting Agreement dated as of December 15, 1999 between the Company and George T. Porter, Jr. (included as Exhibit 10.22 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.14 Consulting Agreement dated as of November 14, 1999 between the Company and Business Ventures International, Inc. (included as Exhibit 10.23 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.15 Extension to Consulting Agreement, dated as of April 28, 2001, between the Company and Jewelcor Management, Inc. *
- 10.16 Employment Agreement dated as of October 16, 1995 between the Company and Joel H. Reichman (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference). *
- 10.17 Employment Agreement dated as of October 16, 1995 between the Company and Scott N. Semel (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference). *
- 10.18 Employment Agreement dated as of May 9, 1997 between the Company and Carolyn R. Faulkner (included as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q dated June 17, 1997, and incorporated herein by reference). *
- 10.19 Employment Agreement dated as of March 31, 2000 between the Company and David A. Levin (included as Exhibit 10.27 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.20 Amendment to Employment Agreement dated as of March 31, 2000 between the Company and David A. Levin. (included as Exhibit 10.19 to the Company's Form 10-Q dated June 19,2001, and incorporated herein by reference). *
- 10.21 Secured Promissory Note dated as of June 26, 2000 between the Company and David A. Levin (included as Exhibit 10.29 to the Company's Form 10-Q dated September 12, 2000, and incorporated herein by reference). *
- 10.22 Pledge and Security Agreement dated June 26, 2000 between the Company and David A. Levin (included as Exhibit 10.29 to the Company's Form 10-Q dated September 12, 2000, and incorporated herein by

- reference). *
- 10.23 Employment Agreement dated as of August 14, 2000 between the Company and Dennis R. Hernreich (included as Exhibit 10.30 to the Company's Form 10-Q dated September 12, 2000, and incorporated herein by reference). *
- 10.24 Amendment to Employment Agreement dated as of August 14, 2000 between the Company and Dennis R. Hernreich (included as Exhibit 10.23 to the Company's Form 10-Q dated June 19, 2001, and incorporated herein by reference). *
- 10.25 Severance Agreement dated as of January 12, 2000 between the Company and Joel H. Reichman (included as Exhibit 10.23 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.26 Severance Agreement dated as of January 20, 2000 between the Company and Scott N. Semel (included as Exhibit 10.23 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.27 Severance Agreement dated as of January 15, 2000 between the Company and Carolyn R. Faulkner (included as Exhibit 10.23 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.28 Indemnification Agreement between the Company and Joel H. Reichman, dated December 10, 1998 (included as Exhibit 10.34 to the Company's Annual Report on Form 10-K dated April 30, 1999 and incorporated herein by reference). *
- 10.29 Indemnification Agreement between the Company and Scott N. Semel, dated December 10, 1998 (included as Exhibit 10.35 to the Company's Annual Report on Form 10-K dated April 30, 1999 and incorporated herein by reference). *
- 10.30 Indemnification Agreement between the Company and Carolyn R. Faulkner, dated December 10, 1998 (included as Exhibit 10.36 to the Company's Annual Report on Form 10-K dated April 30, 1999 and incorporated herein by reference). *
- 18.1 Letter of Preferability from Ernst & Young dated June 13, 2001 (included as Exhibit 18.1 to the Company's Form 10-Q dated June 19, 2001 and incorporated herein by reference). *
- 99 Report of the Company on Form 8-K, dated April 28, 2000 concerning certain cautionary statements of the Company to be taken into account in conjunction with consideration and review of the Company's publicly-disseminated documents (including oral statements made by others on behalf of the Company) that include forward looking information. *

* Previously filed with the Securities and Exchange Commission.

undersigned thereunto duly authorized.

DESIGNS, INC.

September 18, 2001

By: /S/ DENNIS R. HERNREICH
Dennis R. Hernreich, Senior Vice President,
Chief Financial Officer, Treasurer and
Secretary

1992 STOCK INCENTIVE PLAN, AS AMENDED

SECTION 1. General Purpose Of The Plan; Definitions.

The name of the plan is the Designs, Inc. 1992 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees and directors of Designs, Inc. (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Act" means the Securities Exchange Act of 1934, as amended.

"Award" or "Awards", except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Conditioned Stock Awards, Unrestricted Stock Awards and Performance Share Awards.

"Board" means the Board of Directors of the Company.

"Cause" means and shall be limited to a vote of the Board of Directors at a meeting of the Board of Directors resolving that the participant should be dismissed as a result of (i) any material breach by the participant of any agreement to which the participant and the Company or any Subsidiary are both parties, (ii) any act (other than retirement) or omission to act by the participant which may have a material and adverse effect on the business of the Company or any Subsidiary or on the participant's ability to perform services for the Company or any Subsidiary, including, without limitation, the commission of any crime (other than ordinary traffic violations), or (iii) any material misconduct or neglect of duties by the participant in connection with the business or affairs of the Company or any Subsidiary of the Company.

"Change of Control" shall have the meaning set forth in Section 13.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Committee" shall have the meaning set forth in Section 2.

"Conditioned Stock Award" means Awards granted pursuant to Section 6.

"Disability" means disability as set forth in Section 22(e)(3) of the Code.

"Effective Date" means the date on which the Plan is approved by stockholders as set forth in Section 15.

"Fair Market Value" on any given date means the last reported sale price at which Stock is traded on such date or, if no Stock is traded on such date, the most recent date on which Stock was traded, as reflected in the NASDAQ National Market System or, if applicable, any national stock exchange on which the Stock is traded.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Non-Employee Director" means a member of the Board who is not also an employee of the Company or any Subsidiary.

"Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Normal Retirement" means retirement from active employment with the Company and its Subsidiaries in accordance with the retirement policies of the Company and its Subsidiaries then in effect.

"Option" or "Stock Option" means any option to purchase shares of Stock granted pursuant to Section 5.

"Performance Share Award" means Awards granted pursuant to Section 8.

"Stock" means the Common Stock, \$.01 par value per share, of the Company, subject to adjustments pursuant to Section 3.

"Subsidiary" means any corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities, beginning with the Company if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50% or more of the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

"Unrestricted Stock Award" means Awards granted pursuant to Section 7.

SECTION 2. Administration Of Plan; Committee Authority To Select Participants And Determine Awards.

(a) Committee. The Plan shall be administered by all of the Non-Employee Director members of the Stock Option Committee of the Board, or any other committee of not less than two Non-Employee Directors performing similar functions, as appointed by the Board from time to time (the "Committee"). Each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder and a "non-employee director" within the meaning of Rule 16-3b(3)(i) promulgated under the Act, or any successor definition under said Rule.

(b) Powers of Committee. The Committee shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the officers and other employees of the Company and its Subsidiaries to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Conditioned Stock, Unrestricted Stock and Performance Shares, or any combination of the foregoing, granted to any one or more participants.

(iii) to determine the number of shares to be covered by any Award;

(iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(a)(ii), to extend the period in which Stock Options may be exercised;

(vii) to determine whether, to what extent, and under what circumstances Stock and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the participant and whether and to what extent the Company shall pay or credit amounts equal to interest (at rates determined by the Committee) or dividends or deemed dividends on such deferrals; and

(viii) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan (including the power and authority to waive the requirement set forth in Section 7(c) of the Plan that an irrevocable written election to receive Unrestricted Stock, in lieu of directors' fees otherwise due, be delivered prior to the commencement of the calendar year in which the Non-Employee Director serves on the Board.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants.

SECTION 3. Shares Issuable Under The Plan; Mergers; Substitution.

(a) Shares Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 4,430,000. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, canceled, reacquired by the Company, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. Subject to such overall

limitation, shares may be issued up to such maximum number pursuant to any type or types of Award, including Incentive Stock Options. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company. No individual participant in the Plan may, during any fiscal year of the Company, be granted one or more Stock Options the sum of which cover more than 270,000 shares of Stock (such amount being subject to adjustment in accordance with Section 3(b) hereof).

(b) Stock Dividends, Mergers, Etc. In the event that after approval of the Plan by the stockholders of the Company in accordance with Section 15, the Company effects a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in (i) the number and kind of shares of stock or securities on which Awards may thereafter be granted, (ii) the number and kind of shares remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such shares. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance under the Plan and in the number and purchase price (if any) of shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or accelerate, amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances), subject, however, to the provisions of Section 13.

(c) Substitute Awards. The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances. The shares which may be delivered under such substitute awards shall be in addition to the maximum number of shares provided for in Section 3(a) only to the extent that the substitute Awards are granted in substitution for awards issued under a plan approved by the stockholders of the entity which issued such predecessor awards.

SECTION 4. Eligibility.

Participants in the Plan will be such full or part-time officers and other employees of the Company and its Subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company and its Subsidiaries and who are selected from time to time by the Committee, in its sole discretion. Non-Employee Directors are also eligible to participate in the Plan but only to the extent provided in Section 5(c) and Section 7 below.

An employee who is employed primarily to render services within the jurisdiction of a labor union and whose compensation, hours of work, or condition of employment are determined by collective bargaining with such union shall not be an Eligible Employee for purposes of this Plan unless the applicable collective bargaining agreement expressly provides that such employee shall be eligible to participate in this Plan, in which event, however, such employee shall be entitled to participate in the Plan only to the extent and on the terms and conditions specified in such collective bargaining agreement.

SECTION 5. Stock Options.

Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. To the extent that any option does not qualify as an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option.

No Incentive Stock Option shall be granted under the Plan after April 2, 2007.

(a) Stock Options Granted to Employees. The Committee in its discretion may grant Stock Options to employees of the Company or any Subsidiary. Stock Options granted to employees pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(i) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Committee at the time of grant but shall be not less than 100% of Fair

Market Value on the date of grant whether such Stock Option be an Incentive Stock Option or a Non-Qualified Stock Option. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the option price shall be not less than 110% of Fair Market Value on the grant date.

(ii) Option Term. The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than ten years after the date the option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five years from the date of grant.

(iii) Exercisability; Rights of a Shareholder. Stock Options shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee at or after the grant date. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods:

(A) In cash, by certified or bank check or other instrument acceptable to the Committee;

(B) In the form of shares of Stock that are not then subject to restrictions under any Company plan, if permitted by the Committee, in its discretion. Such surrendered shares shall be valued at Fair Market Value on the exercise date; or

(C) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company to pay the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure. Payment instruments will be received subject to collection.

The delivery of certificates representing shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the Optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Stock Option or applicable provisions of laws.

(v) Termination by Death. If any optionee's employment by the Company and its Subsidiaries terminates by reason of death, the Stock Option may thereafter be exercised, to the extent exercisable at the date of death, by the legal representative or legatee of the optionee, for a period of 180 days (or such longer period as the Committee shall specify at any time) from the date of death, or until the expiration of the stated term of the Option, if earlier.

(vi) Termination by Reason of Disability or Normal Retirement.

(A) Any Stock Option held by an optionee whose employment by the Company and its Subsidiaries has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of 180 days (or such longer period as the Committee shall specify at any time) from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

(B) Any Stock Option held by an optionee whose employment by the Company and its Subsidiaries has terminated by reason of Normal Retirement may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of 90 days (or such longer period as the Committee shall specify at any time) from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

(C) The Committee shall have sole authority and discretion to determine whether a participant's employment has been terminated by reason of Disability or Normal Retirement.

(D) Except as otherwise provided by the Committee at the time of grant, the death of an optionee during a period provided in this Section 5(a)(vi) for the exercise of a Non-Qualified Stock Option, shall extend such period for 180 days from the date of death, subject to termination on the expiration of the stated term of the Option, if earlier.

(vii) Termination for Cause. If any optionee's employment by the Company and its Subsidiaries has been terminated for Cause, any Stock Option held by such optionee shall immediately terminate and be of no further force and effect; provided, however, that the Committee may, in its sole discretion, provide that such stock option can be exercised for a period of up to 30 days from the date of termination of employment or until the expiration of the stated term of the Option, if earlier.

(viii) Other Termination. Unless otherwise determined by the Committee, if an optionee's employment by the Company and its Subsidiaries terminates for any reason other than death, Disability, Normal Retirement or for Cause, any Stock Option held by such optionee may thereafter be exercised, to the extent it was exercisable on the date of termination of employment, for 30 days (or such longer period as the Committee shall specify at any time) from the date of termination of employment or until the expiration of the stated term of the Option, if earlier.

(ix) Annual Limit on Incentive Stock Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which incentive stock options granted under this Plan and any other plan of the Company or its Subsidiaries become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000.

(x) Form of Settlement. Shares of Stock issued upon exercise of a Stock Option shall be free of all restrictions under the Plan, except as otherwise provided in this Plan.

(b) Reload Options. At the discretion of the Committee, Options granted under this Section 5(a) may include a so-called "reload" feature pursuant to which an optionee exercising an option by the delivery of a number of shares of Stock in accordance with Section 5(a)(iv)(B) hereof would automatically be granted an additional Option (with an exercise price equal to the Fair Market Value of the Stock on the date the additional Option is granted and with the same expiration date as the original Option being exercised, and with such other terms as the Committee may provide) to purchase that number of shares of Stock equal to the number delivered to exercise the original Option.

(c) Stock Options Granted to Non-Employee Directors.

(i) Grant of Options Upon Election to Board. Each Non-employee Director who is elected by the stockholders of the Company to the Board on or subsequent to October 8, 1999 shall automatically be granted, upon such election, a Non-Qualified Stock Option to purchase 15,000 shares of Stock. Each Non-Employee Director who is re-elected by the stockholders of the Company to the Board on or subsequent to October 8, 1999 shall automatically be granted, upon each such re-election, a Non-qualified Stock Option to purchase 15,000 shares of Stock.

(ii) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 6(c) shall be equal to the Fair Market Value of the Stock on the date the Stock Option is granted.

(iii) Exercise; Termination; Non-transferability.

(A) Options granted under this Section 5(c) shall be vested at the rate of 33 1/3% of such options shall be exercisable on the date of grant, an additional 33 1/3% of such options shall be exercisable on the first anniversary of the grant thereof, and an additional 33 1/3% of such options shall become exercisable on the second anniversary of grant thereof; subject to the provisions of Section 5(c)(iii)(B), any Option so granted shall be exercisable after the termination of service of the Non-Employee Director, whether because of death, disability or otherwise. No Option issued under this Section 5(c) shall be exercisable after the expiration of ten years from the date upon which such Option is granted.

(B) The rights of a Non-Employee Director in an Option granted under Section 5(c) shall terminate 90 days after such Director ceases to be a Director of the Company or the specified expiration date, if earlier; provided, however, that if the Non-Employee ceases to be a Director for Cause, the rights shall terminate immediately on the date on which he ceases to be a Director.

(C) Any Option granted to a Non-Employee Director and outstanding on the date of his or her death may be exercised by the legal representative or legatee of the optionee for a period of 180 days from the date of death or until the expiration of the stated term of the option, if earlier.

(D) Options granted under this Section 5(c) may be exercised only by written notice to the Company specifying the number of shares to be purchased. Payment of the full purchase price of the shares to be purchased may be made by one or more of the methods specified in Section 5(a)(iv). An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) Limited to Non-Employee Directors. The provisions of this Section 5(c) shall apply only to Options granted or to be granted to Non-Employee Directors, and shall not be deemed to modify, limit or otherwise apply to any other provision of this Plan or to any Option issued under this Plan to a participant who is not a Non-Employee Director of the Company. To the extent inconsistent with the provisions of any other Section of this Plan, the provisions of this Section 5(c) shall govern the rights and obligations of the Company and Non-Employee Directors respecting Options granted or to be granted to Non-Employee Directors.

(d) Non-transferability of Options. No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee. Notwithstanding the foregoing, the Committee may permit the optionee to transfer, without consideration for the transfer, his Non-Qualified Stock Options to members of his immediate family, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners; provided that the transferee agrees in writing with the Company to be bound by all terms and conditions of the Plan and the applicable Stock Option.

SECTION 6. Conditioned Stock Awards.

(a) Nature of Conditioned Stock Award. The Committee may grant Conditioned Stock Awards to any employees of the Company or any Subsidiary. A Conditioned Stock Award is an Award entitling the recipient to acquire, at no cost or for a purchase price determined by the Committee, shares of Stock subject to such restrictions and conditions as the Committee may determine at the time of grant ("Conditioned Stock"). Conditions may be based on continuing employment and/or achievement of pre-established performance goals and objectives. In addition, a Conditioned Stock Award may be granted to an employee by the Committee in lieu of a cash bonus due to such employee pursuant to any other plan of the Company.

(b) Acceptance of Award. A participant who is granted a Conditioned Stock Award shall have no rights with respect to such Award unless the participant shall have accepted the Award within 60 days (or such shorter date as the Committee may specify) following the award date by making payment to the Company, if required, by certified or bank check or other instrument or form of payment acceptable to the Committee in an amount equal to the specified purchase price, if any, of the shares covered by the Award and by executing and delivering to the Company a written instrument that sets forth the terms and conditions of the Conditioned Stock in such form as the Committee shall determine.

(c) Rights as a Shareholder. Upon complying with Section 6(b) above, a participant shall have all the rights of a shareholder with respect to the Conditioned Stock, including voting and dividend rights, subject to non-transferability restrictions and Company repurchase or forfeiture rights described in this Section 6 and subject to such other conditions contained in the written instrument evidencing the Conditioned Award. Unless the Committee shall otherwise determine, certificates evidencing shares of Conditioned Stock shall remain in the possession of the Company until such shares are vested as provided in Section 6(e) below.

(d) Restrictions. Shares of Conditioned Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment by the Company and its Subsidiaries for any reason (including death, Disability, Normal Retirement and for Cause), the Company shall have the right, at the Discretion of the Committee, to repurchase shares of Conditioned Stock with respect to which conditions have not lapsed at their purchase price, or to require forfeiture of such shares to the Company if acquired at no cost, from the participant or the participant's legal representative. The Company must exercise such right of repurchase or forfeiture not later than the 90th day following such termination of employment (unless otherwise specified in the written instrument evidencing the Conditioned Award).

(e) Vesting of Conditioned Stock. The Committee at the time of grant

shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the nontransferability of the Conditioned Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Conditioned Stock and shall be deemed "vested." The Committee at any time may accelerate such date or dates and otherwise waive or, subject to Section 11, amend any conditions of the Award.

(f) Waiver, Deferral and Reinvestment of Dividends. The written instrument evidencing the Conditioned Stock Award may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

SECTION 7. Unrestricted Stock Awards.

(a) Grant or Sale of Unrestricted Stock. The Committee may, in its sole discretion, grant (or sell at a purchase price determined by the Committee which shall in no event be less than 85% of Fair Market Value) to any employees of the Company or any Subsidiary shares of Stock free of any restrictions under the Plan ("Unrestricted Stock"). Shares of Unrestricted Stock may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration.

(b) Elections to Receive Unrestricted Stock in Lieu of Compensation. Upon the request of an employee and with the consent of the Committee, each employee may, pursuant to an irrevocable written election delivered to the Company no later than the date or dates specified by the Committee, receive a portion of the cash compensation otherwise due to him in Unrestricted Stock (valued at Fair Market Value on the date or dates the cash compensation would otherwise be paid). Such Unrestricted Stock may be paid to the employee at the same time as the cash compensation would otherwise be paid, or at a later time, as specified by the employee in the written election.

(c) Elections to Receive Unrestricted Stock in Lieu of Directors' Fees. Each Non-Employee Director may, pursuant to an irrevocable written election delivered to the Company no later than December 31 of any calendar year, receive all or a portion of the directors' fees otherwise due to him in the subsequent calendar year in Unrestricted Stock (valued at Fair Market Value on the date or dates the directors' fees would otherwise be paid). Such Unrestricted Stock may be paid to the Non-Employee Director at the same time the directors' fees would otherwise have been paid, or at a later time, as specified by the Non-Employee Director in the written election.

(d) Restrictions on Transfers. The right to receive Unrestricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution.

SECTION 8. Performance Share Awards.

(a) Nature of Performance Shares. A Performance Share Award is an award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals. The Committee may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. Performance Share Awards may be granted under the Plan to any employees of the Company or any Subsidiary, including those who qualify for awards under other performance plans of the Company. The Committee in its sole discretion shall determine whether and to whom Performance Share Awards shall be made, the performance goals applicable under each such Award, the periods during which performance is to be measured, and all other limitations and conditions applicable to the awarded Performance Shares; provided, however, that the Committee may rely on the performance goals and other standards applicable to other performance-based plans of the Company in setting the standards for Performance Share Awards under the Plan.

(b) Restrictions of Transfer. Performance Share Awards and all rights with respect to such Awards may not be sold, assigned, transferred, pledged or otherwise encumbered.

(c) Rights as a Shareholder. A participant receiving a Performance Share Award shall have the rights of a shareholder only as to shares actually received by the participant under the Plan and not with respect to shares subject to the Award but not actually received by the participant. A participant shall be entitled to receive a stock certificate evidencing the acquisition of shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the written instrument evidencing the Performance Share Award (or in a performance plan adopted by the Committee).

(d) Termination. Except as may otherwise be provided by the Committee at any time prior to termination of employment, a participant's rights in all

Performance Share Awards shall automatically terminate upon the participant's termination of employment by the Company and its Subsidiaries for any reason (including death, Disability, Normal Retirement and for Cause).

(e) Acceleration, Waiver, Etc. At any time prior to the participant's termination of employment by the Company and its Subsidiaries, the Committee may in its sole discretion accelerate, waive or, subject to Section 11, amend any or all of the goals, restrictions or conditions imposed under any Performance Share Award.

SECTION 9. Tax Withholding.

(a) Payment by Participant. Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any Federal, state, or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(b) Payment in Shares. With the approval of the Committee, a participant may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due with respect to such Award, or (ii) transferring to the Company shares of Stock owned by the participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

SECTION 10. Transfer, Leave Of Absence, Etc.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another;

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

SECTION 11. Amendments And Termination.

The Board may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel any outstanding Award (or provide substitute Awards at the same or reduced exercise or purchase price or with no exercise or purchase price, but such price, if any, must satisfy the requirements which would apply to the substitute or amended Award if it were then initially granted under this Plan) for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. However, no such amendment, unless approved by the stockholders of the Company, shall be effective if it would cause the Plan to fail to satisfy the incentive stock option requirements of the Code or if it would increase the limitation set forth in Section 3(a) on the number of shares of Stock covered by Options that may be granted to any individual participant during any fiscal year.

SECTION 12. Status Of Plan.

With respect to the portion of any Award which has not been exercised and any payments in cash, Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the provision of the foregoing sentence.

SECTION 13. Change Of Control Provisions.

(a) Upon the occurrence of a Change of Control as defined in this Section 13:

(i) Each Stock Option shall automatically become fully exercisable

notwithstanding any provision to the contrary hereof.

(ii) Restrictions and conditions on Awards of Conditioned Stock shall automatically be deemed waived, and the recipients of such Awards shall become entitled to receipt of the stock subject to such Awards.

(b) The Committee may at any time prior to a Change of Control accelerate the exercisability of any Stock Options, Conditioned Stock, and Performance Share Awards to the extent it shall in its sole discretion determine.

(c) "Change of Control" shall mean the occurrence of any one of the following events:

(i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Act) becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company's then outstanding securities; or, in the case of any person which as of October 20, 2000, is the beneficial owner, directly or indirectly, of securities of the Company representing more than [10%] of the combined voting power of the Company's then outstanding securities, such person shall become the beneficial owner, directly or indirectly, of securities of the Company representing [thirty-five percent (35%)] or more of the combined voting power of the Company's then outstanding securities in addition to the securities beneficially owned, directly or indirectly, by such person as of October 20, 2000 (excluding, for the avoidance of doubt, becoming the beneficial owner of such percentage of securities by reason of any acquisition, retirement or cancellation of securities by the Company).

(ii) at any time after October 20, 2000, persons who, as of October 20, 2000, constituted the Company's Board (the "Incumbent Board") cease for any reason, including without limitation as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to October 20, 2000 whose election was approved by, or who was nominated with the approval of, at least a majority of the directors then comprising the Incumbent Board shall, for purposes of this Plan, be considered a member of the Incumbent Board; or

(iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation or other entity, other than (a) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 65% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (b) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

SECTION 14. General Provisions.

(a) No Distribution; Compliance with Legal Requirements. The Committee may require each person acquiring shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop-orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) Delivery of Stock Certificates. Delivery of stock certificates to participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have delivered such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional

compensation arrangements, including trusts, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan or any Award under the Plan does not confer upon any employee any right to continued employment with the Company or any Subsidiary.

SECTION 15. Effective Date Of Plan.

The Plan shall become effective upon approval by the holders of a majority of the shares of capital stock of the Company present or represented and entitled to vote at a meeting of stockholders.

SECTION 16. Governing Law.

This Plan shall be governed by, and construed and enforced in accordance with, the substantive laws of The Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

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Jewelcor Management, Inc.
100 North Wilkes-Barre Boulevard
Wilkes-Barre, PA 18702

Ladies and Gentlemen:

This will confirm the agreement between Jewelcor Management, Inc. (the "Independent Contractor") and Designs, Inc. (the "Corporation") regarding the extension of the term of the Consulting Agreement between the Independent Contractor and the Corporation dated as of April 29, 2000 (the "Agreement").

1. The term of the Agreement shall be extended for an additional period of one (1) year commencing on April 29, 2001 and ending on April 28, 2002. Unless the context otherwise requires, April 28, 2002 shall be the "Expiration Date" of the Agreement as so extended.
2. Subject to the provisions of Section 4 of the Agreement, the consideration to be furnished to the Independent Contractor by the Corporation for the Services rendered by the Independent Contractor under the Agreement during the period from April 29, 2001 through April 28, 2002 shall consist of (a) 61,856 non-forfeitable, fully paid and non-assessable shares of the Corporation's Common Stock (the fair value of which Common Stock on May 25, 2001, the date of the approval of the extension of the Agreement as set forth herein, was \$240,000 or \$3.88 per share) and (b) the reimbursement of actual and direct out-of-pocket expenses incurred by the Independent Contractor in the rendering of Services under the agreement.

The remaining terms of the Agreement shall remain in full force and effect without change. For the avoidance of doubt, the parties hereby agree and acknowledge that the foregoing extension does not change the compensation or other rights or obligations of the parties originally provided in the Agreement with respect to any prior period.

Very truly yours,
Designs, Inc.

Agreed and Accepted:
Jewelcor Management, Inc.

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