

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 October 28, 2000

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 October 28, 2000
-----	-----
Common	15,777,498

DESIGNS, INC.
CONSOLIDATED BALANCE SHEETS
October 28, 2000, October 30, 1999 and January 29, 2000
(In thousands, except share data)

	October 28, 2000	October 30, 1999	January 29, 2000
	(unaudited)	(unaudited)	
	-----	-----	-----
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Restricted investment	-	2,316	2,365
Accounts receivable	46	163	83
Inventories	64,047	63,622	57,022

Income taxes refundable and deferred	1,920	272	1,920
Prepaid expenses	1,117	1,081	1,042
	-----	-----	-----
Total current assets	67,130	67,454	62,432
Property and equipment, net of accumulated depreciation and amortization	18,040	17,688	16,737
Other assets:			
Deferred income taxes	12,544	18,951	15,215
Intangible assets, net	-	2,435	-
Other assets	455	795	693
	-----	-----	-----
Total assets	\$ 98,169	\$ 107,323	\$ 95,077
	=====	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$ 8,089	\$ 10,613	\$ 6,801
Accrued expenses and other current liabilities	13,796	10,007	8,324
Accrued rent	2,244	2,313	2,253
Reserve for severance and store closings	1,251	1,222	3,228
Notes payable	18,737	17,147	22,202
	-----	-----	-----
Total current liabilities	44,117	41,302	42,808
	-----	-----	-----

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, 16,946,148, 16,665,000 and 16,676,000 shares issued at October 28, 2000, October 30, 1999 and January 29, 2000, respectively	169	167	167
Additional paid-in capital	54,922	54,538	54,571
Retained earnings (deficit)	2,861	13,146	(639)
Treasury stock at cost, 1,168,650 shares at October 28, 2000 and 286,650 shares at October 30, 1999 and January 29, 2000	(3,703)	(1,830)	(1,830)
Loan to executive	(197)	-	-
	-----	-----	-----
Total stockholders' equity	54,052	66,021	52,269
	-----	-----	-----
Total liabilities and stockholders' equity	\$ 98,169	\$ 107,323	\$ 95,077
	=====	=====	=====

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

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

	Three Months Ended		Nine Months Ended	
	October 28, 2000	October 30, 1999	October 28, 2000	October 30, 1999
Sales	\$56,587	\$56,703	\$141,659	\$139,445
Cost of goods sold including occupancy	39,202	38,260	100,200	99,397
Gross profit	17,385	18,443	41,459	40,048
Expenses:				
Selling, general and administrative	10,663	11,868	30,213	31,980
Depreciation and amortization	1,364	1,588	3,958	4,875
Total expenses	12,027	13,456	34,171	36,855
Operating income	5,358	4,987	7,288	3,193
Interest expense, net	472	390	1,317	868
Net income before income taxes	4,886	4,597	5,971	2,325
Provision for income taxes	1,995	1,905	2,469	1,031
Net income	\$ 2,891	\$ 2,692	\$ 3,502	\$ 1,294
	=====	=====	=====	=====
Earnings per share- basic	\$ 0.18	\$ 0.17	\$ 0.22	\$ 0.08
Earnings per share- diluted	\$ 0.18	\$ 0.17	\$ 0.21	\$ 0.08
Weighted average number of common shares outstanding- basic	15,935	16,018	16,255	15,997
Weighted average number of common shares outstanding- diluted	16,362	16,100	16,454	16,114

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

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

	Nine Months Ended	
	October 28, 2000	October 30, 1999
Cash flows from operating activities:		
Net income	\$ 3,502	\$ 1,294
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	3,958	4,875
Issuance of common stock to Board of Directors	156	-
Loss on sale of disposal of fixed assets	35	-
Changes in operating assets and liabilities:		
Accounts receivable	37	15
Inventories	(7,025)	(5,697)
Prepaid expenses	(75)	(170)
Other assets	83	(61)
Reserve for severance and store closings	(1,977)	(3,150)
Income taxes	2,077	1,126
Accounts payable	1,288	1,896
Accrued expenses and other current liabilities	6,066	2,070
Accrued rent	(9)	298
Net cash provided by operating activities	8,116	2,496
Cash flows from investing activities:		
Additions to property and equipment	(5,222)	(4,496)
Proceeds from (establishment of) terminated trust	2,365	(2,316)
Proceeds from disposal of property and equipment	79	73
Net cash used for investing activities	(2,778)	(6,739)
Cash flows from financing activities:		
Net borrowings under credit facility	(3,465)	3,322
Repurchase of common stock	(1,873)	-
Issuance of common stock under option program (1)	-	768
Net cash (used for) provided by financing activities	(5,338)	4,090
Net change in cash and cash equivalents	-	(153)
Cash and cash equivalents:		
Beginning of the year	-	153
End of the period	\$ -	\$ -
	=====	=====

(1) Net of related tax effect.

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 January 29, 2000 (filed 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. Charge for Store Closings

During the fourth quarter of fiscal 2000, the Company recorded a pre-tax charge of \$15.2 million, or \$0.59 per share after tax, related to inventory markdowns, the abandonment of the Company's Boston Traders(R) and related trademarks, severance, and the closure of the Company's five Buffalo Jeans(R) Factory Stores and its five remaining Designs stores. This pre-tax charge of \$15.2 million included cash costs of approximately \$3.6 million related to lease terminations and corporate and store severance, and approximately \$11.6 million of non-cash costs related to inventory markdowns and the impairment of trademarks and store assets. At October 28, 2000, the remaining reserve balance related to this \$15.2 million charge was \$1.3 million, which primarily related to severance and landlord settlements. For the three months ended October 28, 2000, the Company paid approximately \$185,000 of severance costs and landlord settlements.

3. Boston Trading Ltd., Inc. Litigation

On May 2, 1995, the Company acquired certain assets of Boston Trading Ltd., Inc. In accordance with the terms of the Asset Purchase Agreement dated April 21, 1995, the Company paid \$5.4 million in cash, financed by operations, and delivered a non-negotiable promissory note in the original principal amount of \$1 million (the "Purchase Note") payable in two equal annual installments through May 2, 1997. In the first quarter of fiscal 1997, the Company asserted rights of indemnification under the Asset Purchase Agreement. In accordance with that Agreement, the Company, when exercising its indemnification rights, has the right, among other courses of action, to offset against the payment of principal and interest due and payable under the Purchase Note, the value of its indemnification claim. Accordingly, based on these indemnification rights, the Company ultimately did not make either of the \$500,000 payments of principal due on the Purchase Note on May 2, 1996 and May 2, 1997. Nevertheless, the Company continued to pay interest on the original principal amount of the Purchase Note through May 2, 1996 and continued to pay interest thereafter through November 2, 1997 on \$500,000 of principal. In January 1998, Atlantic Harbor, Inc. (formerly known as "Boston Trading Ltd., Inc.") filed a lawsuit against the Company for refusing to pay the purportedly outstanding principal amount of the Purchase Note. Thereafter, the Company filed claims against Atlantic Harbor, Inc. and its stockholders alleging that the Company was damaged in excess of \$1 million because of the breach of certain representations and warranties concerning, among other things, the existence and condition of certain foreign trademark registrations and license agreements. Barring unforeseen circumstances, management of the Company does not believe that the result of this litigation will have a material adverse impact on the Company's business or financial condition.

4. Credit Facility

On June 4, 1998, the Company's entered into an Amended and Restated Loan and Security Agreement with BankBoston Retail Finance, Inc. (now known as Fleet Retail Finance Inc.) (as amended, the "Credit Agreement") which provided for a revolving line of credit of up to \$50 million. Under this Credit Agreement,

the Company had the ability to cause the lenders to issue documentary and standby letters of credit up to \$5 million. At the option of the Company, borrowings under this facility bear interest at FleetBoston, N.A.'s (formerly known as BankBoston, N.A.) prime rate or at LIBOR-based fixed rates. These interest rates at October 28, 2000 were 9.50% for prime and 8.90% for LIBOR. The Credit Agreement contained 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.

This Credit Agreement was amended on July 17, 2000 to, among other things, exclude the stock repurchase program, which was approved by the Company's Board of Directors on June 26, 2000, from the Company's financial covenants. In addition, the Credit Agreement was amended to allow for the Company to provide an interest bearing loan to its Chief Executive Officer which has a maturity date which extends beyond the 90 days allowed under the Credit Agreement. For further discussion, see Note 6.

On December 7, 2000, the Company entered into the Second Amended and Restated Loan and Security Agreement with Fleet Retail Finance Inc. which, among other things extended the term of the credit facility to November 30, 2003 and reduced the total commitment from \$50 million to \$45 million. For further discussion, See Note 10.

At October 28, 2000, the Company had borrowings of approximately \$17.7 million outstanding under this facility and had three outstanding standby letters of credit totaling approximately \$3.9 million. Average borrowings outstanding under this credit facility for the first nine months of fiscal 2001 were approximately \$18.3 million. The Company was in compliance with all debt covenants under this Credit Agreement at October 28, 2000.

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 year. 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		For the nine months ended	
	October 28, 2000	October 30, 1999	October 28, 2000	October 30, 1999
Basic weighted average common shares outstanding	15,935	16,018	16,255	15,997
Stock options	427	82	199	117
Diluted weighted average shares outstanding	<u>16,362</u>	<u>16,100</u>	<u>16,454</u>	<u>16,114</u>

Options to purchase 173,600 and 238,350 shares of the Company's Common Stock for the three and nine months ended October 28, 2000, respectively, and 1,835,575 and 1,734,450 shares for the three and nine months October 30, 1999, respectively, were excluded from the computation of diluted EPS because the exercise price of such options was greater than the average market price per share of Common Stock for the periods reported.

6. Loan to Executive

On June 26, 2000, the Company extended a loan to David A. Levin, its President and Chief Executive Officer, in the amount of \$196,875 in order for Mr. Levin to acquire from the Company 150,000 newly issued shares of the Company's Common Stock at the closing price of the Common Stock on that day. The Company and Mr. Levin entered into a secured promissory note, whereby Mr. Levin agrees to pay to the Company the principal sum of \$196,875 plus interest due and payable on June 26, 2003. The promissory note bears interest at a rate of 6.53% per annum and is secured by the 150,000 acquired shares of the Company's Common Stock.

7. Dutch Auction Tender Offer; Stock Repurchase Program

On November 15, 2000, subsequent to the end of the third quarter, the Company commenced a "Dutch Auction" tender offer for up to 1.5 million shares of the Company's Common Stock, while reserving the option to purchase up to an additional 1.0 million shares. Unless extended by the Company, the tender offer is presently scheduled to expire on December 14, 2000.

Under the terms of the offer, the Company invited its shareholders to tender their shares to the Company at prices specified by the tendering shareholders not in excess of \$3.00 nor less than \$2.20 per share, in ten-cent (\$0.10) increments. The Company will select the lowest single per-share purchase price that will allow it to buy 1.5 million shares, or up to an additional 1.0 million shares at the Company's option.

Through October 28, 2000, the Company had previously repurchased 863,000 shares at an aggregate cost of \$1,861,000 under a Stock Repurchase Program that was approved by the Company's Board of Directors in June 2000 and terminated in August 2000. These shares were purchased in the open market and were recorded by the Company as treasury stock and are reflected as a reduction in stockholders' equity.

The Company utilized two brokerage firms in connection with the repurchase of the 863,000 shares. Sterling Financial Investment Group, Inc. ("Sterling Financial"), one of the firms used, is owned by a family relation of Seymour Holtzman, the Chairman of the Company's Board of Directors. The Company negotiated a commission of \$0.03 per share with each brokerage firm for trades executed as part of the Company's stock repurchase program. The Company paid Sterling Financial total commissions of \$20,940 for trades they executed as part of the Company's stock repurchase program.

Treasury shares also include restricted shares of the Company which were forfeited by associates.

8. Consulting Agreement with Chairman

On October 28, 1999, the Company entered into a consulting agreement with Jewelcor Management, Inc. ("JMI"), currently a 15.5% stockholder of the Company, to assist in developing and implementing a strategic plan for the Company and for other related consulting services as may be agreed upon between JMI and the Company. As compensation for these services, JMI was given the right to receive a non-qualified stock option to purchase up to 400,000 shares of the Company's Common Stock, exercisable at the closing price on October 28, 1999. Any remaining compensation due would be paid to JMI in cash or stock.

On June 26, 2000, the Board of Directors of the Company extended JMI's consulting agreement for a period of one year, the terms of which have not been finalized.

Seymour Holtzman, Chairman of the Board of Directors of the Company, is President and Chief Executive Officer of JMI.

9. Lease Buyout Option

On November 13, 2000, the Company announced that it had entered into an option agreement with the landlord of its corporate headquarters at 66 B Street, Needham, MA. The agreement provides the landlord with the option, if exercised within the next 15 months, to terminate the Company's lease for its corporate headquarters, which currently will expire on January 31, 2006. If such option is exercised by the landlord, then the Company will be entitled to receive \$8.9 million provided that certain conditions in connection with vacating the leased property are met. If the option is exercised, the Company would have seven months thereafter to vacate the premises. If the Company failed to perform all the conditions of the option agreement, the Company would forfeit its right up to the entire \$8.9 million payment.

As of October 28, 2000, the Company had approximately \$2.0 million in unamortized leasehold improvements relating to its corporate headquarters.

10. Subsequent Event

On December 7, 2000, the Company amended and restated its existing credit facility with Fleet Retail Finance Inc. (the "Second Credit Agreement"). The Second 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% 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. The Company's obligation under the Second Credit Agreement continues 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.

Part I. Item 2. Management's Discussion and Analysis of Financial
Condition and Results of Operations

RECENT DEVELOPMENTS

"Dutch Auction" Tender Offer

On November 3, 2000, the Company announced that its Board of Directors authorized a proposed "Dutch Auction" tender offer for up to 1.5 million shares of the Company's Common Stock, reserving the option to purchase up to an additional 1 million shares. The tender offer commenced on November 15, 2000, and expires on December 14, 2000, unless extended by the Company.

Lease Buyout Option

On November 3, 2000, the Company also announced that it had entered into an option agreement with the Landlord of its Corporate Headquarters. The agreement provides the Landlord with the option, if exercised within the next 15 months, to terminate the Company's lease for its Corporate Headquarters, which has a current remaining term of 5 years and 3 months. If such option is exercised by the Landlord, then the Company will be entitled to receive \$8.9 million provided that certain conditions in connection with vacating its Corporate Headquarters are met. If the option is exercised, the Company would have seven months thereafter to vacate the premises. If the Company failed to perform all the conditions of the option agreement, the Company would forfeit its right up to the entire \$8.9 million payment.

In the event the option is exercised, the Company will be required to relocate its Headquarters. The Company will then have to write off up to approximately \$2.0 million in current unamortized leasehold improvements, and incur additional costs of approximately \$1 million associated with the move to a new location. Furthermore, the Company anticipates having to incur significantly higher rental expenses if the Company were to re-locate.

Amendment and Restatement of Credit Facility

On December 7, 2000, the Company amended and restated its existing credit facility with Fleet Retail Finance Inc. (the "Second Credit Agreement"). The Second 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% 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.

RESULTS OF OPERATIONS

Sales

Sales for the third quarter of fiscal 2001 were \$56.6 million as compared to sales of \$56.7 million in the third quarter of fiscal 2000. Sales for the nine-month period of fiscal 2001 were \$141.7 million as compared to \$139.4 million for the nine month period in the prior year. Comparable store sales decreased 2.75% percent for the third quarter of fiscal 2001 as compared with the third quarter of fiscal 2000. Comparable stores are retail locations that have been open at least 13 months. Of the 107 stores that the Company operated at October 28, 2000, 96 were comparable stores.

The increase in total sales of \$2.2 million or 1.6% for the nine months ended October 28, 2000 as compared to the same period in the prior year is due to sales generated by new stores and a comparable store increase offset by stores closed in fiscal 2000.

Gross Profit Margin

Set forth below is merchandise and gross profit margin and occupancy costs as a percentage of total sales for the three and nine months ended October 28, 2000 and October 30, 1999.

	Gross Profit Margins		Percentage Change at October 28, 2000
	October 28, 2000	October 30, 1999	

For the three months ended:			
Merchandise Margin	41.8%	43.7%	(1.9%)
Occupancy Costs	(11.1%)	(11.2%)	(0.1%)
Gross Profit Margins	30.7%	32.5%	(1.8%)
For the nine months ended:			
Merchandise Margin	42.1%	42.2%	(0.1%)
Occupancy Costs	(12.8%)	(13.5%)	(0.7%)
Gross Profit Margins	29.3%	28.7%	0.6%

The 1.8 percentage point decrease in gross profit margin for the three months ended October 28, 2000 compared to the same period in the prior year is due to a 1.9 percentage point decrease in merchandise margins, offset by a 0.1 percentage point improvement in occupancy costs as a percent of sales. The 0.6 percentage point increase in gross profit margin for the nine months ended October 28, 2000 compared to the same period in the prior year is due to the positive leveraging of occupancy of 0.7 percentage points, offset by a decrease in merchandise margins of 0.1 percentage point. The decrease in merchandise margin for the three and nine months ended October 28, 2000 as compared to the prior year was primarily attributable to decreasing initial margins. This decreasing initial margin is the result of a change in product mix resulting from a higher sales volume of lower margin merchandise. The Company anticipates that it will experience a similar impact on merchandise margin during the fourth quarter of fiscal 2001.

Selling, General and Administrative Expenses

Set forth below is certain information concerning the Company's selling, general and administrative expenses for the three and nine months ended October 28, 2000 and October 30, 1999.

(In thousands, except percentage data)	October 28, 2000		October 30, 1999	
	\$	% of sales	\$	% of sales

For the three months ended	\$10,663	18.8%	\$11,868	20.9%
For the nine months ended	\$30,213	21.3%	\$31,980	22.9%

The decreases in selling, general and administrative expenses for the three and nine months ended October 28, 2000 as compared with the same periods in the prior year is due primarily to continued cost reduction efforts. Store payroll expense, the largest component of selling, general and administrative expenses, remained flat at 10.8 percent of sales for the nine months ended October 28, 2000, compared with the same period in the prior year.

Depreciation and Amortization

Set forth below is depreciation and amortization expenses for the Company for the three and nine months ended October 28, 2000 and October 30, 1999.

(In thousands, except percentage data)	October 28,	October 30,	Percentage Change at October 28, 2000
	2000	1999	

For the three months ended	\$1,364	\$1,588	(14.1%)
For the nine months ended	\$3,958	\$4,875	(18.8%)

The decrease in depreciation and amortization expense for the three and nine months ended October 28, 2000 compared to the same periods in the prior year is due to the write-off of fixed assets in fiscal 2000 as part of the Company's store closing program and several assets becoming fully depreciated during fiscal 2001. This decrease is offset slightly by additional depreciation for new and remodeled stores.

Interest Expense, Net

Net interest expense was \$472,000 and \$390,000 for the three months ended October 28, 2000 and October 30, 1999, respectively. Net interest expense was \$1,317,000 and \$868,000 for the nine months ended October 28, 2000 and October 30, 1999, respectively. These increases were attributable to higher average borrowing levels and higher interest rates under the Company's revolving credit facility for the three and nine months ended October 28, 2000 as compared to the same periods in the prior year.

Net Income

Set forth below is the net income and earnings per share, presented on a diluted basis, for the Company for the three and nine months ended October 28, 2000 and October 30, 1999.

(In thousands, except per share data)	October 28, 2000		October 30, 1999	
	\$	per share	\$	per share
For the three months ended	\$2,891	\$ 0.18	\$2,692	\$ 0.17
For the nine months ended	\$3,502	\$ 0.21	\$1,294	\$ 0.08

STORE CLOSING PROGRAMS

During the fourth quarter of fiscal 2000, the Company recorded a pre-tax charge of \$15.2 million, or \$0.59 per share after tax, related to inventory markdowns, the abandonment of the Company's Boston Traders(R) and related trademarks, severance, and the closure of the Company's five Buffalo Jeans(R) Factory Stores and its five remaining Designs stores. This pre-tax charge of \$15.2 million included cash costs of approximately \$3.6 million related to lease terminations and corporate and store severance, and approximately \$11.6 million of non-cash costs related to inventory markdowns and the impairment of trademarks and store assets. At October 28, 2000, the remaining reserve balance related to this \$15.2 million charge was \$1.3 million, which primarily related to severance and landlord settlements.

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. In recent years, the Company's focus has shifted towards its outlet store business and the percentage of mall-based business has been eliminated. Accordingly, the Company's third and fourth quarters, although continuing to generate a greater proportion of total sales, have become less significant to total sales as had previously been the case. This change is due to the different seasonality of the Company's outlet business as compared with the seasonality of the mall-based specialty stores.

Liquidity and Capital Resources

The Company's primary cash needs have been for operating expenses, including cash outlays associated with inventory purchases, capital expenditures for new and remodeled stores, severance and lease terminations. During fiscal 2001, the Company expects to incur capital expenditures related to building new outlet stores and outlet store relocations and system enhancements of \$5.6 million. The Company expects that cash flow from operations, short-term revolving borrowings and trade credit will enable it to finance its current working capital, stock repurchase programs and store remodeling and opening requirements.

Working Capital and Cash Flows

To date, the Company has financed its working capital requirements, store opening and store closing programs and remodeling programs with cash flow from operations and borrowings under the Company's credit facility. Cash provided by operations for the first nine months of fiscal 2001 was \$8.1 million as compared to cash provided by operations of \$2.5 million for the same period in the prior year. This \$5.6 million change is primarily due to improved results of operations and the timing of cash payments for merchandise and various other monthly expenses.

There was no cash and investment position at October 28, 2000. Total unrestricted cash and investment position at October 30, 1999 was \$2.3 million. At October 28, 2000, the Company had borrowings of \$17.7 million outstanding under its revolving credit facility as compared to \$16.1 million of outstanding borrowings at October 30, 1999 and \$21.2 million at January 29, 2000. This decrease in the Company's net borrowing position from January 29, 2000 is primarily due to improved results of operations and the timing of various payables.

The Company's working capital at October 28, 2000 was approximately \$23.0 million, compared to \$26.2 million at October 30, 1999. This decrease in working capital was partly attributable to the Company's stock repurchase program, which occurred in July and August 2000.

At October 28, 2000, total inventory equaled \$64.0 million, compared to \$63.6 million at October 30, 1999. However, on a per square foot basis, inventory decreased from \$66.68 to \$63.28 which is in line with the Company's efforts to improve inventory management. The Company continues to evaluate and, within the discretion of management, act upon opportunities to purchase substantial quantities of Levi's(R), Dockers(R) and Slates brand products for its Levi's(R) and Dockers(R) Outlet by Designs stores.

The Company stocks its Levi's(R) Outlet by Designs and Dockers(R) Outlet by Designs stores with manufacturing overruns, merchandise specifically manufactured for the outlet stores and discontinued lines and irregulars purchased directly from Levi Strauss & Co. By its nature, this merchandise, including the most popular Levi Strauss & Co. styles of merchandise and the breadth of the mix of this merchandise, is subject to limited availability. The Company may act upon opportunities to purchase substantial quantities of Levi's(R) brand products for its Levi's(R) and Dockers(R) outlet stores.

At October 28, 2000, the accounts payable balance was \$8.1 million as compared with a balance of \$10.6 million at October 30, 1999. The Company's trade payables to Levi Strauss & Co., its principal vendor, generally are due 30 days after the date of invoice. The Company expects, barring unforeseen circumstances, that any purchases of merchandise from vendors other than Levi Strauss & Co. will be limited and will be in accordance with customary industry credit terms.

At October 28, 2000, the Company had borrowings of approximately \$17.7 million outstanding under this facility and had three outstanding standby letters of credit totaling approximately \$3.9 million. Average borrowings outstanding under this credit facility for the third quarter of fiscal 2001 were approximately \$18.3 million.

As of October 28, 2000, the Company had repurchased 863,000 shares at an aggregate cost of \$1,861,000, under a stock repurchase program which was approved by the Company's Board of Directors in June 2000. These shares were recorded by the Company as treasury stock and are reflected as a reduction in stockholders' equity.

Capital Expenditures

Total cash outlays for capital expenditures for the first nine months of fiscal 2001 were \$5.2 million, which represents the cost of new and remodeled stores. Total cash outlays for the first nine months of fiscal 2000 were \$4.5 million. During the first nine months of fiscal 2001, the Company opened four new Levi's(R)/Dockers(R) Outlet by Designs stores and remodeled six of its older outlets.

The Company's present plans for expansion for the remainder of fiscal 2001, barring unforeseen circumstances, include remodeling an additional five Levi's(R) Outlet stores and opening one additional Levi's(R)/Dockers(R) Outlet by Designs stores.

On October 31, 1998, the Company and Levi Strauss & Co. amended the trademark license agreement (as amended, the "Outlet License Agreement") that authorizes the Company to use certain Levi Strauss & Co. trademarks in connection with the operation of the Company's Levi's(R) Outlet by Designs and Dockers(R) Outlet by Designs stores in 25 states in the eastern portion of the United States. This agreement was subsequently amended on March 22, 2000 to change certain of the Change in Control provisions. Subject to certain default provisions, the term of the Outlet License Agreement was extended to September 30, 2004, and the license for any particular store is the period co-terminous with the lease term for such store (including extension options). Beginning with the amendment on October 31, 1998, the Outlet License Agreement provides that the Company has the opportunity to extend the term of the license associated with one or more of the Company's older Levi's(R) Outlet by Designs stores by either renovating the store or replacing the store with a new store with an updated format and fixturing. In order to extend the license associated with each of the Company's 59 older outlet stores, the Company must, subject to certain grace periods, complete these renovations or the construction of replacement stores by December 31, 2004.

The Company, with the approval of Levi Strauss & Co., initiated a program to remodel or replace its 59 oldest Levi's(R) Outlet by Designs stores over a five year period, beginning in fiscal 1999. As of October 28, 2000, the Company had closed two of its older 59 Levi's(R) Outlet stores, remodeled 11 of the older Levi's Outlet stores and opened 13 new Levi's(R)/Dockers(R) Outlet by Designs

stores and two Dockers(R) Outlet 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 of the Company's Annual Report on Form 10-K, previously 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 protect against the adverse effect of these and other potential exposures.

The Company utilizes cash from operations and short-term borrowings under a credit facility to fund its working capital needs. This debt instrument is viewed as a risk management tool and is not used for trading or speculative purposes. In addition, the Company has available letters of credit as sources of financing for its working capital requirements. Borrowings under this credit facility, which expires in November 2003, bears interest at variable rates based on FleetBoston, N.A.'s prime rate or the London Interbank Offering Rate ("LIBOR"). These interest rates at October 28, 2000 were 9.50% for prime and 8.90% for LIBOR. Based upon sensitivity analysis as of October 28, 2000, a 10% increase in interest rates would result in a potential loss to future earnings of approximately \$168,000 on an annualized basis.

Part II. Other Information

ITEM 1. Legal Proceedings

In January 1998 Atlantic Harbor, Inc. (formerly known as "Boston Trading Ltd., Inc.") filed a lawsuit against the Company for failing to pay the outstanding principal amount of the Purchase Note. Thereafter, the Company filed claims against Atlantic Harbor, Inc. and its stockholders alleging that the Company was damaged in excess of \$1 million because of the breach of certain representations and warranties concerning the existence and condition of certain foreign trademark registrations and license agreements. Barring unforeseen circumstances, management of the Company does not believe that the result of this litigation will have a material adverse effect on the Company's business or financial condition.

The Company is a party to other litigation and claims arising in the normal course of its business. Barring unforeseen circumstances, management does not expect the results of these actions to have a material adverse effect on the Company's business or financial condition.

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

None.

ITEM 6. Exhibits and Reports on Form 8-K

A. Reports on Form 8-K:

The Company reported under Item 4 of Form 8-K, dated October 3, 2000, that Deloitte & Touche LLP resigned as the Company's independent accountants and Ernst & Young LLP has been engaged as the Company's new principal independent accountants.

The Company reported under Item 7 of Form 8-KA, dated November 2, 2000, the letter from Deloitte & Touche LLP regarding its concurrence with the Company's disclosure in Item 4 of Form 8-K dated October 3, 2000.

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.
- 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 Amended and Restated Loan and Security Agreement dated as of June 4, 1998, between the Company and BankBoston Retail Finance Inc., as agent for the Lender(s) identified therein ("BBRF") and the Lender(s) (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 11, 1998, and incorporated herein by reference). *
- 10.6 Fee letter dated as of June 4, 1998, between the Company and BBRF (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated June 11, 1998, and incorporated herein by reference). *
- 10.7 First Amendment to Loan and Security Agreement dated as of September 29, 1998 among the Company, BBRF and the Lender(s) identified therein (included as Exhibit 10.5 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *
- 10.8 Second Amendment to Loan and Security Agreement dated as of October 31, 1998 among the Company, BBRF and the Lender(s) identified therein (included as Exhibit 10.6 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *
- 10.9 Third Amendment to Loan and Security Agreement dated as of October 28, 1999 among the Company, BBRF and the Lender(s) identified therein (included as Exhibit 10.9 to the Company's Form 10-Q dated December 14, 1999, and incorporated herein by reference). *
- 10.10 Fourth Amendment to Loan and Security Agreement dated as of March 20, 2000 among the Company, Fleet Retail Finance Inc.(f/k/a BankBoston Retail Finance) and the Lender(s) identified therein (included as Exhibit 10.13 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.11 Fifth Amendment to Loan and Security Agreement dated as of July 17, 2000 among the Company, Fleet Retail Finance Inc. and the Lender(s) identified therein (included as Exhibit 10.13 to the company's Form 10-Q dated September 12, 2000 and incorporated herein by reference). *
- 10.12 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
- 10.13 Amendment and Distribution Agreement dated as of October 31, 1998 among the Designs JV Corp., LDJV Inc. and The Designs/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). *
- 10.14 Guaranty by the Company of the indemnification obligation of the Designs JC Corp. dated as of October 31, 1998 in favor of LDJV, Inc. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *
- 10.15 Asset Purchase Agreement between Levi's Only Stores, Inc. ("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). *
- 10.16 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). *
- 10.17 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). *
- 10.18 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). *
- 10.19 Consulting Agreement dated as of October 28, 1999 between the Company and Jewelcor Management, Inc. (included as Exhibit 10.20 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.20 Consulting Agreement dated as of October 29, 1999 between the Company and John J. Schultz (included as Exhibit 10.21 to the Company's Form 10-K dated April 28, 2000, and incorporated herein by reference). *
- 10.21 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).*
- 10.22 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). *
- 10.23 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). *
- 10.24 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). *
- 10.25 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). *
- 10.26 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). *
- 10.27 Secured Promissory Note dated as of June 26, 2000 between the Company and David A. Levin (included as Exhibit 10.28 to the Company's Form 10-Q dated September 12, 2000, and incorporated herein by reference). *
- 10.28 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). *
- 10.29 Employment Agreement dated as of August 14, 2000 between the Company and Dennis Hernreich (included as Exhibit 10.30 to the Company's Form 10-Q dated September 12, 2000, and incorporated herein by reference). *
- 10.30 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). *
- 10.31 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). *
- 10.32 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).*

- 10.33 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). *
- 10.34 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). *
- 10.35 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). *
- 10.36 Agreement Regarding Leases dated November 2, 2000 between the Company and O.M. 66 B Street LLC.
- 11 Statement re: computation of per share earnings.
- 27 Financial Data Schedule.
- 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.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DESIGNS, INC.

December 12, 2000

By: /S/ DAVID A. LEVIN

David A. Levin, President,
Chief Executive Officer and Director

BY-LAWS
OF
DESIGNS, INC.

Section 1. CERTIFICATE OF INCORPORATION AND BY-LAWS

1.1 These By-Laws are subject to the Certificate of Incorporation of the Corporation. In these By-Laws, references to the Certificate of Incorporation and By-Laws mean the provisions of the Certificate of Incorporation and the By-Laws as are from time to time in effect.

Section 2. OFFICES

2.1 REGISTERED OFFICE. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

2.2 Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

Section 3. STOCKHOLDERS

3.1 LOCATION OF MEETINGS. All meetings of the stockholders shall be held at such place either within or without the State of Delaware as shall be designated from time to time by the Board of Directors. Any adjourned session of any meeting shall be held at the place designated in the vote of adjournment.

3.2 ANNUAL MEETING. The annual meeting of stockholders shall be held for the election of directors on the second Tuesday in June in each year, unless that day be a legal holiday at the place where the meeting is to be held, in which case the meeting shall be held at the same hour on the next succeeding day not a legal holiday, or at such other date and time as shall be designated from time to time by the Board of Directors. Any other business as may be required or permitted by law or these By-Laws may properly come before the annual meeting.

3.3 SPECIAL MEETING IN PLACE OF ANNUAL MEETING. If the election for directors shall not be held on the day designated by these By-Laws, the directors shall cause the election to be held as soon thereafter as convenient, and to that end, if the annual meeting is omitted on the day herein provided therefor or if the election of directors shall not be held thereat, a special meeting of the stockholders may be held in place of such omitted meeting or election, and any business transacted or election held at such special meeting shall have the same effect as if transacted or held at the annual meeting, and in such case all references in these By-Laws to the annual meeting of the stockholders, or to the annual election of directors, shall be deemed to refer to or include such special meeting. Any such special meeting shall be called and the purposes thereof shall be specified in the call, as provided in Section 3.4.

3.4 NOTICE OF ANNUAL MEETING. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting. Such notice may specify the business to be transacted and actions to be taken at such meeting. No action shall be taken at such meeting unless such notice is given, or unless waiver of such notice is given by the holders of outstanding stock having not less than the minimum number of votes necessary to take such action at a meeting at which all shares entitled to vote thereon were voted. Prompt notice of all action taken in connection with such waiver of notice shall be given to all stockholders not present or represented at such meeting.

3.5 SPECIAL MEETINGS. Except as otherwise required by law and subject to the rights, if any, of the holders of any series of preferred stock, special meetings of the stockholders of the Corporation may be called only by the Board of Directors pursuant to a resolution approved by the affirmative vote of a majority of the directors then in office.

3.6 NOTICE OF SPECIAL MEETING. Written notice of a special meeting of stockholders stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. No action shall be taken at such meeting unless such notice is given, or unless waiver of such notice is given by the holders of outstanding stock having not less than the minimum number of votes necessary to take such action at a meeting at which all shares entitled to vote thereon were voted. Prompt notice of all action taken in connection with such waiver of notice shall be given to all stockholders not present or represented at such meeting.

3.7 STOCKHOLDER LIST. The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

3.8 QUORUM OF STOCKHOLDERS. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise required by law, or by the Certificate of Incorporation or by these By-Laws. Except as otherwise provided by law, no stockholder present at a meeting may withhold his shares from the quorum count by declaring his shares absent from the meeting.

3.9 ADJOURNMENT. Any meeting of stockholders may be adjourned from time to time to any other time and to any other place at which a meeting of stockholders may be held under these By-Laws, which time and place shall be announced at the meeting, by a majority of votes cast upon the question, whether or not a quorum is present. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

3.10 PROXY REPRESENTATION. Every stockholder may authorize another person or persons to act for him by proxy in all matters in which a stockholder is entitled to participate, whether by waiving notice of any meeting, objecting to or voting or participating at a meeting, or expressing consent or dissent without a meeting. Every proxy must be signed by the stockholder or by his attorney-in-fact. No proxy shall be voted or acted upon after three years from its date unless such proxy provides for a longer period. Except as otherwise provided by law, a stockholder may revoke any proxy which is not irrevocable by attending the meeting for which the proxy was given and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation. A duly executed proxy shall be irrevocable if it states that it is irrevocable and, if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally. The authorization of a proxy may but need not be limited to specified action, provided, however, that if a proxy limits its authorization to a meeting or meetings of stockholders, unless otherwise specifically provided such proxy shall entitle the holder thereof to vote at any adjourned session but shall not be valid after the final adjournment thereof.

3.11 INSPECTORS. The directors or the person presiding at the meeting may, but need not, appoint one or more inspectors of election and any substitute inspectors to act at the meeting or any adjournment thereof. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors, if any, shall determine the number of shares of stock outstanding and the voting power of each, the shares of stock represented at the meeting, the existence of a quorum and the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them.

3.12 ACTION BY VOTE. When a quorum is present at any meeting, whether the same be an original or an adjourned session, a plurality of the votes properly cast for election to any office shall elect to such office and a majority of the votes properly cast upon any question other than an election to an office shall decide the question, except when a larger vote is required by law, by the Certificate of Incorporation or by these By-Laws. No ballot shall be required for any election unless requested by a stockholder present or represented at the meeting and entitled to vote in the election.

3.13 ACTION WITHOUT MEETINGS. Unless otherwise provided in the

Certificate of Incorporation, any action required to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

3.14 MATTERS TO BE CONSIDERED AT ANNUAL MEETINGS. At any annual meeting of stockholders or any special meeting in lieu of annual meeting of stockholders (for purposes of this Section 3.14 and Section 4.16 hereof, hereinafter referred to as an "Annual Meeting"), only such business shall be conducted, and only such proposals shall be acted upon, as shall have been properly brought before such Annual Meeting. To be considered as properly brought before an Annual Meeting, business must be: (a) specified in the notice of the Annual Meeting, (b) otherwise properly brought before the annual meeting by, or at the direction of, the Board of Directors, or (c) otherwise properly brought before the Annual Meeting by any holder of record (both as of the time notice of such proposal is given by the stockholder as set forth below and as of the record date for the Annual Meeting in question) of any shares of capital stock of the Corporation entitled to vote at such Annual Meeting who complies with the requirements set forth in this Section 3.14.

In addition to any other applicable requirements, for business to be properly brought before an Annual Meeting by a stockholder of record of any shares of capital stock entitled to vote at such Annual Meeting, such stockholder shall: (i) give timely notice as required by this Section 3.14 to the Secretary of the Corporation and (ii) be present at such Annual Meeting, either in person or by a representative. A stockholder's notice shall be timely if delivered to, or mailed to and received by, the Corporation at its principal executive office not less than seventy-five days nor more than one hundred twenty days prior to the anniversary date of the immediately preceding Annual Meeting (for purposes of this Section 3.14 and Section 4.16 hereof, hereinafter referred to as the "Anniversary Date"); provided, however, that in the event the Annual Meeting is scheduled to be held on a date more than thirty days before the Anniversary Date or more than sixty days after the Anniversary Date, a stockholder's notice shall be timely if delivered to, or mailed to and received by, the Corporation at its principal executive office not later than the close of business on the later of (A) the seventy-fifth day prior to the scheduled date of such Annual Meeting or (B) the fifteenth day following the day on which public announcement of the date of such Annual Meeting is first made by the Corporation.

For purposes of these By-Laws, "public announcement" shall mean: (i) disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service, (ii) a report or other document filed publicly with the Securities and Exchange Commission (including, without limitation, a Form 8-K), or (iii) a letter or report sent to all stockholders of record of the Corporation at the time of the mailing of such letter or report.

A stockholder's notice to the Secretary shall set forth as to each matter proposed to be brought before an Annual Meeting: (i) a brief description of the business the stockholder desires to bring before such Annual Meeting and the reasons for conducting such business at such Annual Meeting, (ii) the name and address, as they appear on the Corporation's stock transfer books, of the stockholder proposing such business, (iii) the class and number of shares of the Corporation's capital stock beneficially owned by the stockholder proposing such business, (iv) the names and addresses of the beneficial owners, if any, of any capital stock of the Corporation registered in such stockholder's name on such books, and the class and number of shares of the Corporation's capital stock beneficially owned by such beneficial owners, (v) the names and addresses of other stockholders known by the stockholder proposing such business to support such proposal, and the class and number of shares of the Corporation's capital stock beneficially owned by such other stockholders, and (vi) any material interest of the stockholder proposing to bring such business before such meeting (or any other stockholders known to be supporting such proposal) in such proposal.

If the Board of Directors or a designated committee thereof determines that any stockholder proposal was not made in a timely fashion in accordance with the provisions of this Section 3.14 or that the information provided in a stockholder's notice does not satisfy the information requirements of this Section 3.14 in any material respect, such proposal shall not be presented for action at the Annual Meeting in question. If neither the Board of Directors nor such committee makes a determination as to the validity of any stockholder proposal in the manner set forth above, the presiding officer of the Annual Meeting shall determine whether the stockholder proposal was made in accordance with the terms of this Section 3.14. If the presiding officer determines that

any stockholder proposal was not made in a timely fashion in accordance with the provisions of this Section 3.14 or that the information provided in a stockholders notice does not satisfy the information requirements of this Section 3.14 in any material respect, such proposal shall not be presented for action at the Annual Meeting in question. If the Board of Directors, a designated committee thereof or the presiding officer determines that a stockholder proposal was made in accordance with the requirements of this Section 3.14, the presiding officer shall so declare at the Annual Meeting and ballots shall be provided for use at the Annual Meeting with respect to such proposal.

Notwithstanding the foregoing provisions of this Section 3.14, a stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder with respect to the matters set forth in this Section 3.14, and nothing in this Section 3.14 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

3.15. INSPECTION OF STOCKHOLDER CONSENTS. In the event of the delivery to the Corporation of the requisite written stockholder consents to take corporate action and/or any related revocation or revocations, the Corporation shall engage nationally recognized independent inspectors of elections for the purpose of promptly performing a ministerial review of the validity of such consents and revocations. For the purpose of permitting the inspectors to perform such review, no action by written consent without a meeting shall be effective until such date as the independent inspectors certify to the Corporation that the consents delivered to the Corporation constitute at least the minimum number of votes that would be necessary to take the corporate action. Nothing contained in this paragraph shall in any way be construed to suggest or imply that the Board of Directors or any stockholder shall not be entitled to contest the validity of any consent or revocation thereof, whether before or after such certification by the independent inspectors, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

Section 4. DIRECTORS

4.1 NUMBER; QUALIFICATIONS. The Board of Directors shall consist of one or more members, the number thereof to be determined from time to time by resolution of the Board of Directors. Directors need not be stockholders.

4.2 ELECTION; VACANCIES. The Board of Directors shall initially consist of persons elected as such by the incorporator. At the first annual meeting of stockholders and at each annual meeting thereafter, the stockholders shall elect directors to replace those directors whose terms then expire. Vacancies and any newly created directorships resulting from any increase in the number of directors may be filled by vote of the stockholders at a meeting called for the purpose, or by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. When one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have resigned, shall have power to fill such vacancy or vacancies, the vote or action by writing thereon to take effect when such resignation or resignations shall become effective. The directors shall have and may exercise all their powers notwithstanding the existence of one or more vacancies in their number, subject to any requirements of law or of the Certificate of Incorporation or of these By-Laws as to the number of directors required for a quorum or for any vote or other actions.

4.3 TENURE. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, each director shall hold office until the next annual meeting and until his successor is elected and qualified, or until he sooner dies, resigns, is removed or becomes disqualified.

4.4 POWERS. The business of the Corporation shall be managed by or under the direction of the Board of Directors which shall have and may exercise all the powers of the Corporation and do all such lawful acts and things as are not by law, the Certificate of Incorporation or these By-Laws directed or required to be exercised or done by the stockholders.

4.5 COMMITTEES. The Board of Directors may, by vote of a majority of the whole Board, (a) designate, change the membership of or terminate the existence of any committee or committees, each committee to consist of one or more of the directors; (b) designate one or more directors as alternate members of any such committee who may replace any absent or disqualified member at any meeting of the committee; and (c) determine the extent to which each such committee shall have and may exercise the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, including the power to authorize the seal of the Corporation to be affixed to all papers which require it and the power and authority to declare dividends or

to authorize the issuance of stock; excepting, however, such powers which by law, by the Certificate of Incorporation or by these By-Laws they are prohibited from so delegating. In the absence or disqualification of any member of such committee and his alternate, if any, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the Board or such rules, its business shall be conducted as nearly as may be in the same manner as is provided by these By-Laws for the conduct of business by the Board of Directors. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors upon request.

4.6 REGULAR MEETING. Regular meetings of the Board of Directors may be held without call or notice at such place within or without the State of Delaware and at such times as the Board may from time to time determine, provided that notice of the first regular meeting following any such determination shall be given to absent directors. A regular meeting of the directors may be held without call or notice immediately after and at the same place as the annual meeting of the stockholders.

4.7 SPECIAL MEETINGS. Special meetings of the Board of Directors may be held at any time and at any place within or without the State of Delaware designed in the notice of the meeting, and may be called only by the Secretary upon the request of persons constituting a majority of the Special Committee of the Board of Directors formed by resolution adopted by the Board of Directors on December 1, 1998, reasonable notice thereof being given to each director by the Secretary or any member of such Special Committee.

4.8 NOTICE. It shall be reasonable and sufficient notice to a director to send notice by mail at least forty-eight hours or by telegram at least twenty-four hours before the meeting, addressed to him at his usual or last known business or residence address or to give notice to him in person or by telephone at least twelve hours before the meeting. Notice of a meeting need not be given to any director if a written waiver of notice, executed by him before or after the meeting, is filed with the records of the meeting, or to any director who attends the meeting without protesting prior thereto or at its commencement the lack of notice to him. Neither notice of a meeting nor a waiver of a notice need specify the purposes of the meeting.

4.9 QUORUM. Except as may be otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, at any meeting of the directors a majority of the directors then in office shall constitute a quorum; a quorum shall not in any case be less than one-third of the total number of directors constituting the whole Board. Any meeting may be adjourned from time to time by a majority of the votes cast upon the question, whether or not a quorum is present, and the meeting may be held as adjourned without further notice.

4.10 ACTION BY VOTE. Except as may be otherwise provided by law, by the Certificate of Incorporation or by these By-Laws, when a quorum is present at any meeting the vote of a majority of the directors present shall be the act of the Board of Directors.

4.11 ACTION WITHOUT A MEETING. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all the members of the Board or of such committee, as the case may be, consent thereto in writing, and such writing or writings are filed with the records of the meetings of the Board or of such committee. Such consent shall be treated for all purposes as the act of the Board or of such committee, as the case may be.

4.12 PARTICIPATION IN MEETINGS BY CONFERENCE TELEPHONE. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, members of the Board of Directors or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Such participation shall constitute presence in person at such meeting.

4.13 COMPENSATION. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, the Board of Directors shall have the authority to fix from time to time the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and the performance of their responsibilities as directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors and/or a stated salary as director. No such payment shall preclude any director from serving the Corporation or its parent or subsidiary corporations in any other capacity and receiving compensation therefor. The Board of Directors may also

allow compensation for members of special or standing committees for service on such committees.

4.14 INTERESTED DIRECTORS AND OFFICERS.

(a) No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of the Corporation's directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(1) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(2) The material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(3) The contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof, or the stockholders.

(b) Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

4.15 RESIGNATION OR REMOVAL OF DIRECTORS. Unless otherwise restricted by the Certificate of Incorporation or by law, any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the stock issued and outstanding and entitled to vote at an election of directors. Any director may resign at any time by delivering his resignation in writing to the President or the Secretary or to a meeting of the Board of Directors. Such resignation shall be effective upon receipt unless specified to be effective at some other time; and without in either case the necessity of its being accepted unless the resignation shall so state. No director resigning and (except where a right to receive compensation shall be expressly provided in a duly authorized written agreement with the Corporation) no director removed shall have any right to receive compensation as such director for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise; unless in the case of a resignation, the directors, or in the case of removal, the body acting on the removal, shall in their or its discretion provide for compensation.

4.16 DIRECTOR NOMINATIONS. Nominations of candidates for election as directors of the Corporation at any Annual Meeting may be made only (a) by, or at the direction of, a majority of the directors then in office or (b) by any holder of record (both as of the time notice of such nomination is given by the stockholder as set forth below and as of the record date for the Annual Meeting in question) of any shares of the capital stock of the Corporation entitled to vote at such Annual Meeting who complies with the timing, informational and other requirements set forth in this Section 4.16. Any stockholder who has complied with the timing, informational and other requirements set forth in this Section 4.16 and who seeks to make such a nomination, or such stockholder's representative, must be present in person at the Annual Meeting. Only persons nominated in accordance with the procedures set forth in this Section 4.16 shall be eligible for election as directors at an Annual Meeting.

Nominations, other than those made by, or at the direction of, the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Corporation as set forth in this Section 4.16. A stockholder's notice shall be timely if delivered to, or mailed to and received by, the Corporation at its principal executive office not less than seventy-five days nor more than one hundred twenty days prior to the Anniversary Date; provided, however, that in the event the Annual Meeting is scheduled to be held on a date more than thirty days before the Anniversary Date or more than sixty days after the Anniversary Date, a stockholder's notice shall be timely if delivered to, or mailed and received by, the Corporation at its principal executive office not later than the close of business on the later of (i) the seventy-fifth day prior to the scheduled date of such Annual Meeting or (ii) the fifteenth day following the day on which public announcement of the date of such Annual Meeting is first made by the Corporation.

A stockholder's notice to the Secretary shall set forth as to each person whom the stockholder proposes to nominate for election or re-election as a director: (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the Corporation's capital stock which are beneficially owned by such person on the date of such stockholder notice, and (iv) the consent of each nominee to serve as a director if elected. A stockholder's notice to the Secretary shall further set forth as to the stockholder giving such notice: (i) the name and address, as they appear on the Corporation's stock transfer books, of such stockholder and of the beneficial owners (if any) of the Corporation's capital stock registered in such stockholder's name and the name and address of other stockholders known by such stockholder to be supporting such nominee(s), (ii) the class and number of shares of the Corporation's capital stock which are held of record, beneficially owned or represented by proxy by such stockholder and by any other stockholders known by such stockholder to be supporting such nominee(s) on the record date for the Annual Meeting in question (if such date shall then have been made publicly available) and on the date of such stockholder's notice, and (iii) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such stockholder.

If the Board of Directors or a designated committee thereof determines that any stockholder nomination was not made in accordance with the terms of this Section 4.16 or that the information provided in a stockholder's notice does not satisfy the informational requirements of this Section 4.16 in any material respect, then such nomination shall not be considered at the Annual Meeting in question. If neither the Board of Directors nor such committee makes a determination as to whether a nomination was made in accordance with the provisions of this Section 4.16, the presiding officer of the Annual Meeting shall determine whether a nomination was made in accordance with such provisions. If the presiding officer determines that any stockholder nomination was not made in accordance with the terms of this Section 4.16 or that the information provided in a stockholder's notice does not satisfy the informational requirements of this Section 4.16 in any material respect, then such nomination shall not be considered at the Annual Meeting in question. If the Board of Directors, a designated committee thereof or the presiding officer determines that a nomination was made in accordance with the terms of this Section 4.16, the presiding officer shall so declare at the Annual Meeting and ballots shall be provided for use at the Annual Meeting with respect to such nominee.

Notwithstanding anything to the contrary in the second sentence of the second paragraph of this Section 4.16, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least seventy-five days prior to the Anniversary Date, a stockholder's notice required by this Section 4.16 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if such notice shall be delivered to, or mailed to and received by, the Corporation at its principal executive office not later than the close of business on the fifteenth day following the day on which such public announcement is first made by the Corporation.

No person shall be elected by the stockholders as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 4.16. Election of directors at an Annual Meeting need not be by written ballot, unless otherwise provided by the Board of Directors or presiding officer at such Annual Meeting. If written ballots are to be used, ballots bearing the names of all the persons who have been nominated for election as directors at an Annual Meeting in accordance with the procedures set forth in this Section 4.16 shall be provided for use at such Annual Meeting.

Section 5. NOTICES

5.1 FORM OF NOTICE. Whenever, under the provisions of law, or of the Certificate of Incorporation or of these By-Laws, notice is required to be given to any director or stockholder, such notice may be given by mail, addressed to such director or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Unless written notice by mail is required by law, written notice may also be given by telegram, cable, telecopy, commercial delivery service, telex or similar means, addressed to such director or stockholder at his address as it appears on the records of the Corporation, in which case such notice shall be deemed to be given when delivered into the control of the persons charged with effecting such transmission, the transmission charge to be paid by the Corporation or the person sending such notice and not by the addressee. Oral

notice or other in-hand delivery (in person or by telephone) shall be deemed given at the time it is actually given.

5.2 WAIVER OF NOTICE. Whenever notice is required to be given under the provisions of law, the Certificate of Incorporation or these By-Laws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the stockholders, directors or members of a committee of the directors need be specified in any written waiver of notice.

Section 6. OFFICERS AND AGENTS

6.1 ENUMERATION; QUALIFICATION. The officers of the Corporation shall be a Chairman of the Board of Directors, a President, a Treasurer, a Secretary and such other officers, if any, as the Board of Directors from time to time may in its discretion elect or appoint including without limitation one or more Vice Presidents. Any officer may be, but none need be, a director or stockholder. Any two or more offices may be held by the same person. Any officer may be required by the Board of Directors to secure the faithful performance of his duties to the Corporation by giving bond in such amount and with sureties or otherwise as the Board of Directors may determine.

6.2. POWERS AND DUTIES OF THE OFFICERS.

- (A) CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the Board of Directors and stockholders of the Corporation, shall generally supervise the affairs of the Corporation and see that all orders and resolutions of the Board of Directors are carried into effect, and, together with the President, shall have general supervision and direction of the other officers, employees and agents of the Corporation, subject to the control of the Board of Directors. The Chairman shall be ex officio a member of all committees of the Board of Directors except the Audit Committee, and shall have particular responsibility for supervision of the Corporation's investor relations, financial and legal affairs, and shall have such other powers and perform such other duties and functions as may from time to time be assigned by the Board of Directors.
- (B) PRESIDENT. The President shall be the Chief Executive Officer of the Corporation, responsible for the general day-to-day management of the business of the Corporation. The President shall preside at all meetings of the Board of Directors and stockholders of the Corporation in the absence of the Chairman of the Board, and, together with the Chairman of the Board, shall have general supervision and direction of the other officers, employees and agents of the Corporation, subject to the control of the Board of Directors. The President shall from time to time make such reports of the affairs and operations of the Corporation as the Board of Directors may direct and shall have such other powers and perform such other duties and functions as may from time to time be assigned by the Board of Directors.
- (C) SENIOR VICE PRESIDENTS. Each Senior Vice President shall have such powers and perform such duties and functions as may from time to time be assigned by the Board of Directors. One Senior Vice President shall be designated by the Board of Directors to, in the event of the President's absence or disability, perform all the duties and exercise the powers of the President.
- (D) VICE PRESIDENTS. Each Vice President shall have such powers and perform such duties and functions as may from time to time be assigned by the Board of Directors.
- (E) SECRETARY. The Secretary shall attend all meetings of the Board of Directors and of the stockholders of the Corporation and shall keep the minutes thereof in appropriate books. The Secretary shall give or cause to be given notice of all meetings of stockholders, and special meetings of the Board of Directors to the extent otherwise provided in the By-Laws, and shall perform such other duties as may be incidental to the office of Secretary or as may from time to time be assigned by the Board of Directors. The Secretary shall keep in safe custody the seal of the Corporation and affix it to any instrument when authorized by the Board of Directors. The Secretary shall have custody of the books and records of the Corporation, except such books and records as may be in the custody of the Treasurer or another

person authorized by the Board of Directors to have such custody.

- (F) TREASURER. The Treasurer shall have the custody of the corporate funds and securities of the Corporation and shall be responsible for the keeping of full and accurate accounts of receipts and disbursements in books belonging to the Corporation, for the deposit of all moneys and other valuable effects in the name and to the credit of the corporation, and for the disbursement of the funds of the Corporation subject to the order of the Board of Directors. The Treasurer shall render to the Chairman of the Board, the President and the Board of Directors whenever they may so require an account of all his or her transactions as Treasurer and of the financial condition of the Corporation. The Treasurer shall, if required by the Board of Directors, give the Corporation a bond in such sum or sums and with such surety or sureties as shall be satisfactory to the Board of Directors, conditioned upon the faithful performance of his or her duties.
- (G) ASSISTANT SECRETARIES. The Board of Directors may appoint one or more Assistant Secretaries who shall perform the duties and exercise the powers of the Secretary in the Secretary's absence or disability and have such other powers and perform such other duties and functions of the Secretary as may from time to time be assigned by the Board of Directors.
- (H) ASSISTANT TREASURERS. The Board of Directors may appoint one or more Assistant Treasurers who shall perform the duties and exercise the powers of the Treasurer in the Treasurer's absence or disability and have such other powers and perform such other duties and functions of the Treasurer as may from time to time be assigned by the Board of Directors.
- (I) SUBORDINATE OFFICERS. The Corporation may have such subordinate officers as the Board of Directors may from time to time deem desirable. Each such officer shall hold office for such period and perform such duties as the Board of Directors, the Chairman of the Board or an officer designated pursuant to this Section 6 may prescribe.
- (J) DELEGATION OF DUTIES. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Chairman of the Board, the President or the Board of Directors may confer for the time-being the powers or duties, or any of them, of such officer upon any other officer. In the absence of an officer, that officer's duties shall be performed and his or her authority may be exercised by the next most senior officer, with seniority expressed by the order of appearance in this Section 6.2, and, within a category, by seniority in a particular position, with the right reserved to the Board of Directors to make such designation or supersede any designation so made.

6.3 ELECTION. The Board of Directors at its first meeting after each annual meeting of stockholders, or special meeting in place of an annual meeting, shall choose a Chairman, a President, a Secretary and a Treasurer. Other officers may be appointed by the Board of Directors at such meeting, at any other meeting or by written consent. At any time or from time to time, the directors may delegate to any officer their power to elect or appoint any other officer or any agents.

6.4 TENURE. Each officer shall hold office until the first meeting of the Board of Directors following the next annual meeting of the stockholders and until his successor is elected and qualified unless a shorter period shall have been specified in terms of his election or appointment, or in each case until he sooner dies, resigns, is removed or becomes disqualified. Each agent of the Corporation shall retain his authority at the pleasure of the directors, or the officer by whom he was appointed or by the officer who then holds agent appointive power.

6.5 RESIGNATION AND REMOVAL. Any officer may resign at any time by delivering his resignation in writing to the President or the Secretary or to a meeting of the Board of Directors. Such resignation shall be effective upon receipt unless specified to be effective at some other time, and without in any case the necessity of its being accepted unless the resignation shall so state. The Board of Directors may at any time remove any officer either with or without cause. The Board of Directors may at any time terminate or modify the authority of any agent. No officer resigning and (except where a right to receive compensation shall be expressly provided in a duly authorized written agreement with the Corporation) no officer removed shall have any right to any compensation as such officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his

compensation be by the month or by the year or otherwise; unless in the case of a resignation, the directors, or in the case of removal, the body acting on the removal, shall in their or its discretion provide for compensation.

6.6 VACANCIES. If the office of the Chairman, the President, the Treasurer or the Secretary becomes vacant, the directors may elect a successor by vote of a majority of the directors then in office. If the office of any other officer becomes vacant, any person or body empowered to elect or appoint that office may choose a successor. Each such successor shall hold office for the unexpired term of his predecessor, and in the case of the Chairman, the President, the Treasurer and the Secretary until his successor is chosen and qualified, or in each case until he sooner dies, resigns, is removed or becomes disqualified.

Section 7. CAPITAL STOCK

7.1 STOCK CERTIFICATES. Each stockholder shall be entitled to a certificate stating the number and the class and the designation of the series, if any, of the shares held by him, in such form as shall, in conformity to law, the Certificate of Incorporation and the By-Laws, be prescribed from time to time by the Board of Directors. Such certificate shall be signed by the President or a Vice-President and (i) the Treasurer or an Assistant Treasurer or (ii) the Secretary or an Assistant Secretary. Any of or all the signatures on the certificate may be a facsimile. In case an officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the time of its issue.

7.2 LOST CERTIFICATES. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 8. TRANSFER OF SHARES OF STOCK

8.1 TRANSFER ON BOOKS. Subject to any restrictions with respect to the transfer of shares of stock, shares of stock may be transferred on the books of the Corporation by the surrender to the Corporation or its transfer agent of the certificate therefor properly endorsed or accompanied by a written assignment and power of attorney properly executed, with necessary transfer stamps affixed, and with such proof of the authenticity of signature as the Board of Directors or the transfer agent of the Corporation may reasonably require. Except as may be otherwise required by law, by the Certificate of Incorporation or by these By-Laws, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to receive notice and to vote or to give any consent with respect thereto and to be held liable for such calls and assessments, if any, as may lawfully be made thereon, regardless of any transfer, pledge or other disposition of such stock until the shares have been properly transferred on the books of the Corporation.

It shall be the duty of each stockholder to notify the Corporation of his post office address.

Section 9. GENERAL PROVISIONS

9.1 RECORD DATE. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action to which such record date relates. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting. If no record date is fixed,

(a) The record date for determining stockholders entitled to

notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held;

(b) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and

(c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

9.2 DIVIDENDS. Dividends upon the capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting or by written consent, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

9.3 PAYMENT OF DIVIDENDS. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the directors shall think conducive to the interest of the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

9.4 CHECKS. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

9.5 FISCAL YEAR. The fiscal year of the Corporation shall end the Saturday closest to the 31st of January unless otherwise determined by the Board of Directors.

9.6 SEAL. The Board of Directors may, by resolution, adopt a corporate seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the word "Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise. The seal may be altered from time to time by the Board of Directors.

Section 10. INDEMNIFICATION

10.1 It being the intent of the Corporation to provide maximum protection available under the law to its officers and directors, the Corporation shall indemnify its officers and directors to the full extent the Corporation is permitted or required to do so by the General Corporation Law of Delaware as the same exists or hereafter may be amended. Such indemnification shall include payment by the Corporation, in advance of the final disposition of a civil or criminal action, suit or proceedings, of expenses incurred by a director or officer in defending any such action, suit or proceeding upon receipt of any undertaking by or on behalf of such director or officer to repay such payment if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation. The Corporation may accept any such undertaking without reference to the financial ability of the person to make such repayment. As used in this paragraph, the terms "director" and "officer" include their respective heirs, executors, and administrators.

Section 11. AMENDMENTS

11.1 These By-Laws may be altered, amended or repealed or new By-Laws may be adopted by the stockholders or by the Board of Directors when such power is conferred upon the Board of Directors by the Certificate of Incorporation, at any regular meeting of the stockholders or of the Board of Directors or at any special meeting of the stockholders or of the Board of Directors. If the power to adopt, amend or repeal By-Laws is conferred upon the Board of Directors by the Certificate of Incorporation, it shall not divest or limit the power of the stockholders to adopt, amend or repeal By-Laws.

DESIGNS, INC.

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 75,000 shares of Stock (such amount being subject to adjustment in accordance with Section 3(b) hereof), provided, however, that an individual participant may be granted one or more Stock Options the sum of which cover up to 270,000 shares of Stock (such amount being subject to adjustment in accordance with Section 3(b) hereof) during any fiscal year if all such Stock Options have an exercise price equal to not less than 200% of Fair Market Value on the date of grant.

(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.

=====

SECOND AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

=====

=====

FLEET RETAIL FINANCE INC.
Agent for
The Lenders Referenced Herein

DESIGNS, INC.
The Borrower

=====

December 7, 2000

TABLE OF CONTENTS

ARTICLE 1-DEFINITIONS.....	1
ARTICLE 2-THE REVOLVING CREDIT.....	19
2-1. -Establishment of Revolving Credit.....	19
2-2. -Advances in Excess of Borrowing Base.....	20
2-3. -Risks of Value of Collateral.....	20
2-4. -Loan Requests.....	21
2-5. -Making of Loans Under Revolving Credit.....	22
2-6. -The Loan Account.....	22
2-7. -The Revolving Credit Notes.....	23
2-8. -Payment of The Loan Account.....	23
2-9. -Interest.....	23
2-10. -Commitment Fee; Agent's Fee.....	24
2-11. -Line Fee.....	24
2-12. -Early Termination Fee.....	25
2-13. -Regarding Fees.....	25
2-14. -Agent's and Lenders' Discretion.....	25
2-15. -Procedures For Issuance of L/C's.....	26
2-16. -Fees For L/C's.....	26
2-17. -Concerning L/C's.....	27
2-18. -Changed Circumstances.....	28
2-19. -Increased Costs.....	29
2-20. -Lenders' Commitments.....	30

ARTICLE 3-CONDITIONS PRECEDENT.....	31
3-1. -Corporate Due Diligence.....	31
3-2. -Opinion.....	31
3-3. -[Intentionally Omitted].....	31
3-4. -Guarantors.....	31
3-5. -Additional Documents.....	31
3-6. -Officers' Certificates.....	31
3-7. -Representations and Warranties.....	32
3-8. -Intentionally Omitted.....	32
3-9. -All Fees and Expenses Paid.....	32
3-10. -No Suspension Event.....	32
3-11. -No Adverse Change.....	32
 ARTICLE 4 - GENERAL REPRESENTATIONS, WARRANTIES AND COVENANTS.....	 32
4-1. -Payment and Performance of Liabilities.....	32
4-2. -Due Organization -Corporate Authorization -No Conflicts..	32
4-3. -Trade Names.....	34
4-4. -Infrastructure.....	34
4-5. -Locations.....	34
4-6. -Title to Assets.....	35
4-7. -Indebtedness.....	36
4-8. -Insurance Policies.....	36
4-9. -Licenses.....	37
4-10. -Leases.....	37
4-11. -Requirements of Law.....	37
4-12. -Maintain Properties.....	37
4-13. -Pay Taxes.....	38
4-14. -No Margin Stock.....	39
4-15. -ERISA.....	39
4-16. -Hazardous Materials.....	39
4-17. -Litigation.....	40
4-18. -Dividends or Investments.....	40
4-19. -Permitted Acquisitions.....	41
4-20. -Loans.....	41
4-21. -Intentionally Omitted.....	42
4-22. -Restrictions on Sale of Collateral; License Agreements...	42
4-23. -Protection of Assets.....	42
4-24. -Line of Business.....	42
4-25. -Affiliate Transactions.....	42
4-26. -Additional Assurances.....	43

4-27.	-Adequacy of Disclosure.....	43
4-28.	-Other Covenants.....	43
ARTICLE 5-REPORTING REQUIREMENTS / FINANCIAL COVENANTS.....		43
5-1.	-Maintain Records.....	43
5-2.	-Access to Records.....	44
5-3.	-Notice to Agent.....	44
5-4.	-Borrowing Base Certificate.....	45
5-5.	-Weekly Reports.....	46
5-6.	-Monthly Reports.....	46
5-7.	-Quarterly Reports.....	47
5-8.	-Annual Reports.....	47
5-9.	-Applicable to Monthly, Quarterly and Annual Reports.....	48
5-10.	-Officers' Certificates.....	48
5-11.	- Inventories, Appraisals, and Audits.....	48
5-12.	-Additional Financial Information.....	49
5-13.	-Financial Performance Covenants.....	50
ARTICLE 6-USE AND COLLECTION OF COLLATERAL.....		50
6-1.	-Use of Inventory Collateral.....	50
6-2.	-Inventory Quality.....	50
6-3.	-Adjustments and Allowances.....	50
6-4.	-Validity of Accounts.....	50
6-5.	-Notification to Account Debtors.....	51
ARTICLE 7-CASH MANAGEMENT. PAYMENT OF LIABILITIES.....		51
7-1.	-Depository Accounts.....	51
7-2.	-Credit Card Receipts.....	51
7-3.	-The Concentration and the Funding Accounts.....	51
7-4.	-Proceeds and Collection of Accounts.....	52
7-5.	-Payment of Liabilities.....	52
7-6.	-The Funding Account.....	53
ARTICLE 8 - GRANT OF SECURITY INTEREST.....		53
8-1.	- Grant of Security Interest.....	53
8-2.	- Extent and Duration of Security Interest.....	54
ARTICLE 9-AGENT AS BORROWER'S ATTORNEY-IN-FACT.....		54
9-1.	-Appointment as Attorney-In-Fact.....	54
9-2.	-No Obligation to Act.....	55
ARTICLE 10-EVENTS OF DEFAULT.....		55
10-1.	-Failure to Pay Revolving Credit.....	55
10-2.	-Failure To Make Other Payments.....	56

10-3.	-Failure to Perform Covenant or Liability(No Grace Period)	56
10-4.	-Financial Reporting Requirements.....	56
10-5.	-Failure to Perform Covenant or Liability (Grace Period)..	56
10-6.	-Misrepresentation.....	56
10-7.	-Acceleration of Other Debt. Breach of Lease.....	56
10-8.	-Default Under Other Agreements.....	57
10-9.	-Uninsured Casualty Loss.....	57
10-10.	-Judgment. Restraint of Business.....	57
10-11.	-Business Failure.....	57
10-12.	-Bankruptcy.....	57
10-13.	-Indictment -Forfeiture.....	58
10-14.	-Default by Guarantor or Related Entity.....	58
10-15.	-Termination of Guaranty.....	58
10-16.	-Challenge to Loan Documents.....	58
10-17.	-Lease Default.....	58
10-18.	.-Change in Control.....	58
ARTICLE 11-RIGHTS AND REMEDIES UPON DEFAULT.....		59
11-1.	-Rights of Enforcement.....	59
11-2.	-Sale of Collateral.....	59
11-3.	-Occupation of Business Location.....	60
11-4.	-Grant of Nonexclusive License.....	60
11-5.	-Assembly of Collateral.....	60
11-6.	-Rights and Remedies.....	60
ARTICLE 12-NOTICES.....		61
12-1.	-Notice Addresses.....	61
12-2.	-Notice Given.....	62
ARTICLE 13-TERM.....		62
13-1.	-Termination of Revolving Credit.....	62
13-2.	-Effect of Termination.....	62
ARTICLE 14-GENERAL.....		63
14-1.	-Protection of Collateral.....	63
14-2.	-Successors and Assigns.....	63
14-3.	-Severability.....	63
14-4.	-Amendments. Course of Dealing.....	63
14-5.	-Power of Attorney.....	64
14-6.	-Application of Proceeds.....	64
14-7.	-Costs and Expenses of Agent and Of Lenders.....	64
14-8.	-Copies and Facsimiles.....	64

14-9.	-Massachusetts Law.....	65
14-10.	- Consent to Jurisdiction.....	65
14-11.	-Indemnification.....	65
14-12.	-Rules of Construction.....	66
14-13.	-Intent.....	67
14-14.	-Right of Set-Off.....	67
14-15.	-Maximum Interest Rate.....	67
14-16.	-Waivers.....	67
14-17.	-Confidentiality.....	68
14-18.	-Amendment and Restatement.....	69

EXHIBITS

2-4	:	Loan Request
2-7	:	Revolving Credit Note
2-20	:	Voting Rights
4-2	:	Related Entities
4-3	:	Trade Names
4-4(b)	:	Exceptions to Property Rights
4-5	:	Locations, Leases, and Landlords
4-5(c)	:	Form of Landlord's Waiver
4-6	:	Encumbrances
4-7	:	Indebtedness
4-8	:	Insurance Policies
4-10	:	Capital Leases
4-13	:	Taxes
4-17	:	Litigation
5-4	:	Borrowing Base Certificate
5-13(a)	:	Financial Performance Covenants
7-1	:	DDA's.
7-2	:	Credit Card Arrangements

December 7, 2000

THIS AGREEMENT is made between

Fleet Retail Finance Inc (f/k/a BankBoston Retail Finance Inc.) (in such capacity, herein the "Agent"), a Delaware corporation with offices at 40 Broad Street, Boston, Massachusetts 02109, as agent for the ratable benefit of the "Lenders", who are, at present, those financial institutions identified on the signature pages of this Agreement and who in the future are those Persons (if any) who become "Lenders" in accordance with the provisions of Section 2-20, below,

and

Designs, Inc. (hereinafter, the "Borrower"), a Delaware corporation with its principal executive offices at 66 B Street, Needham, Massachusetts 02194

in consideration of the mutual covenants contained herein and benefits to be derived herefrom,

WITNESSETH:

ARTICLE 1 - DEFINITIONS.

As herein used, the following terms have the following meanings or are defined in the section of this Agreement so indicated:

"Acceptable Inventory": Eligible L/C Inventory and all other Inventory of the Borrower (excluding any supplies, goods returned or rejected by customers, goods to be returned to suppliers, and goods in transit to third persons (other than the Borrower's agents or warehouses)), consisting of casual apparel, footwear, and related accessories, less any Reserves, as to which inventory the Lender has a perfected security interest which is prior and superior to all security interests, claims, and encumbrances other than Permitted Encumbrances.

"Accounts" and "Accounts Receivable" "Accounts" as defined in the UCC, and also all: accounts, accounts receivable, credit card receivables, notes, drafts, acceptances, and other forms of obligations and receivables and rights to payment for credit extended and for goods sold or leased, or services rendered, whether or not yet earned by performance; all "contract rights" as formerly defined in the UCC; all Inventory which gave rise thereto, and all rights associated with such Inventory, including the right of stoppage in transit; all reclaimed, returned, rejected or repossessed Inventory (if any) the sale of which gave rise to any Account.

"Account Debtor": Has the meaning given that term in the UCC.

"ACH": Automated clearing house.

"Acquisition": The purchase or other acquisition, by the Borrower or by any Subsidiary (no matter how structured in one transaction or in a series of transactions) , of: (a) equity interests in any other Person which would constitute or which results in a Change in Control of such other Person, or (b) such of the assets of any Person as would permit the Borrower or such Subsidiary to operate one or more retail locations of such Person or to conduct other business operations with such assets (provided, however, none of the following shall constitute an "Acquisition": purchases of inventory in the ordinary course of the Borrower's business; purchases, leases or other acquisitions of Equipment in the ordinary course of the Borrower's business; and capital expenditures permitted hereunder).

"Administrative Costs": All attorneys' reasonable fees and reasonable out-of-pocket expenses incurred by the Agent's and any Lender's attorneys, and all reasonable costs incurred by the

Agent or any Lender (but excluding the Agent's or any Lender's overhead expense), in the administration of the Liabilities and/or the Loan Documents, including, without limitation, reasonable costs and expenses associated with travel on behalf of the Agent or any Lender, which costs and expenses are directly or indirectly related to or in respect of the Agent's and any Lender's: administration and management of the Liabilities; negotiation, documentation, and amendment of any Loan Document; or efforts to preserve, protect, collect, or enforce the Collateral, the Liabilities, and/or the Agent's Rights and Remedies and/or any of the Agent's rights and remedies against or in respect of any guarantor or other person liable in respect of the Liabilities (whether or not suit is instituted in connection with such efforts). The Administrative Costs are Liabilities, and at the Agent's option may bear interest at the rate which the Agent may then charge the Borrower hereunder as if such had been lent, advanced, and credited by the Agent to, or for the benefit of, the Borrower.

"Affiliate": With respect to any two Persons, a relationship in which (a) one holds, directly or indirectly, not less than Fifty-One Percent (51%) of the capital stock, beneficial interests, partnership interests, or other equity interests of the other; or (b) one has, directly or indirectly, the right, under ordinary circumstances, to vote for the election of a majority of the directors (or other body or Person who has those powers customarily vested in a board of directors of a corporation); or (c) not less than Fifty-One Percent (51%) of their respective ownership is directly or indirectly held by the same third Person.

"Agent": Is defined in the Preamble.

"Agent's Fee": Is defined in Section 2-10.

"Agent's Rights and Remedies": Is defined in Section 11-6.

"Amendment Fee": Is defined in Section 2-10(a).

"Amendment Fee Letter": That letter, styled the "Amendment Fee Letter" between the Borrower and the Agent dated December 7, 2000, as such letter may from time to time be amended.

"Applicable Margin": The rates for Base Margin Loans and LIBOR Loans determined as of the date of this Agreement based upon the following criteria:

Level	Availability	Base Margin Applicable Margin	LIBOR Applicable Margin
1	Less than 15% of the Borrowing Base	0%	2.50%
2	Greater than or equal 15% of the Borrowing Base but less than or equal to 30% of the Borrowing Base	0%	2.25%
3	Greater than 30% of the Borrowing Base but less than or equal to 70% of the Borrowing Base	0%	2.00%
4	Greater than 70% of the Borrowing Base	0%	1.75%

The Applicable Margin shall be adjusted monthly as of the first day of each calendar month based upon the average Availability for the immediately preceding calendar month. Upon the occurrence of an Event of Default, interest shall accrue at the rate set forth in Section 2-9(f).

"Appraised Inventory Liquidation Value": The product of (a) the Cost of Eligible Inventory (net of Inventory Reserves) multiplied by (b) that percentage, determined from the then most recent appraisal of the Borrowers' Inventory undertaken at the request of the Agent, to reflect the appraiser's estimate of

the net recovery on the Borrowers' Inventory in the event of an in-store liquidation of that Inventory.

"Appraised Inventory Percentage": 90%.

"Availability": Is defined in Section 2-1(b).

"Availability Reserves": Such reserves as the Agent from time to time reasonably determines in the Agent's discretion as being appropriate to reflect the impediments to the Agent's ability to realize upon the Collateral. Without limiting the generality of the foregoing, Availability Reserves may include (but are not limited to) reserves based on the following (notwithstanding that certain of the following may constitute Permitted Encumbrances):

- (i) Rent (based upon past due rent and/or whether or not Landlord's Waiver, acceptable to the Agent, has been received by the Agent for those states in which the Agent reasonably believes the landlord(s) may have a statutory lien). Without limiting the Agent's rights, at the execution of this Agreement, the Availability Reserve for rent shall be in the sum of \$400,000.00.
- (ii) In store customer credits and Gift Certificates: Without limiting the Agent's rights, at the execution of this Agreement, the Availability Reserve for such items shall be in the sum of \$250,000.00.
- (iii) Frequent Shopper Programs.
- (iv) Layaways and Customer Deposits
- (v) Taxes and other governmental charges, including, ad valorem, personal property, and other taxes which might have priority over the security interests of the Agent in the Collateral.

"Bankruptcy Code": Title 11, U.S.C., as amended from time to time.

"Base": The Base Rate announced from time to time by Fleet National Bank (or any successor in interest to Fleet National Bank). In the event that said bank (or any such successor) ceases to announce such a rate, "Base" shall refer to that rate or index announced or published from time to time as the Agent, in good faith, designates as the functional equivalent to said Base Rate. Any change in "Base" shall be effective, for purposes of the calculation of interest due hereunder, when such change is made effective generally by the bank on whose rate or index "Base" is being set. In all events, interest which is determined by reference to Base (or any successor to Base) shall be calculated on a 360 day year and actual days elapsed.

"Base Margin Loan": Each Revolving Credit Loan while bearing interest at the Base Margin Rate.

"Base Margin Rate": Base plus the Applicable Margin for Base Margin Loans.

"Borrower": Is defined in the Preamble.

"Borrowing Base": The lesser, on any day, of

- (a) the amount determined in accordance with Section 2-1(b)(i); or
- (b) the amount determined in accordance with Section 2-1(b)(ii) hereof,

in each instance ((a) or (b)) determined without deduction from said amount of the unpaid principal balance of the Loan Account on that day.

"BusinessDay": Any day other than (a) a Saturday or Sunday; (b) any day on which banks in Boston, Massachusetts or Needham, Massachusetts, generally are not open to the general public for the purpose of conducting commercial banking business; or (c) a day on which the Agent is not open to the general public to conduct business.

"BusinessPlan": The Borrower's annual business plan dated November 2, 2000, which has been furnished to the Agent, and

any annual business plan hereafter furnished the Agent in accordance with the provisions of Section 5-12(c) hereof.

"Capital Expenditures": The expenditure of funds or the incurrence of liabilities which are capitalized in accordance with GAAP, consistent with the Borrower's prior practices.

"Capital Lease": Any lease which is capitalized in accordance with GAAP, consistent with the Borrower's prior practices.

"Change in Control": The occurrence of any of the following:
(a) The acquisition, by any group of persons (within the meaning of the Securities Exchange Act of 1934, as amended) or by any Person, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission) of 50% or more of the issued and outstanding capital stock of the Borrower having the right, under ordinary circumstances, to vote for the election of directors of the Borrower.
(b) More than one-third of the persons who were directors of the Borrower on the first day of any period consisting of Twelve (12) consecutive calendar months (the first of which Twelve (12) month periods commences on the first day of November, 1999), cease, for any reason other than death or disability, to be directors of the Borrower.
(c) The persons who are directors of the Borrower as of October 28, 1999 cease, for any reason, to constitute a majority of the board of directors of the Borrower.

"Chattel Paper": Has the meaning given that term in the UCC.

"Collateral": Is defined in Section 8-1.

"Commitment Fee": Is defined in Section 2-10.

"Commitment": Subject to Section 2-20, as follows:

Lender	Dollar Commitment	Commitment Percentage
Fleet Retail Finance Inc.	\$31,500,000.00	70%
Wells Fargo Business Credit, Inc.	\$13,500,000.00	30%

"Commitment Percentage": Subject to Section 2-20, as set forth in the definition of "Commitment".

"Concentration Account": Is defined in Section 7-3.

"Cost": The lower of
(a) the calculated cost of purchases, as determined from invoices received by the Borrower, the Borrower's purchase journal or stock ledger, based upon the Borrower's accounting practices, known to the Lender, which practices are in effect on the date on which this Agreement was executed; or
(b) the lowest ticketed or promoted price at which the subject inventory is offered to the public, after all mark-downs (whether or not such price is then reflected on the Borrower's accounting system).
"Cost" does not include inventory capitalization costs or other non-purchase price charges used in the Borrower's calculation of cost of goods sold (other than freight, which may be capitalized consistent with GAAP and the Borrower's prior practices).

"DDA": Any checking or other demand daily depository account maintained by any Obligor.

"Deposit Account": Has the meaning given that term in the UCC.

"Documents": Has the meaning given that term in the UCC.

"Documents of Title": Has the meaning given that term in the UCC.

"Dollar Commitment": As provided in the Definition of "Commitment", above.

"Early Termination Fee": Is defined in Section 2-12.

"Eligible Investments": Any or all of the following:

(a) marketable direct full faith and credit obligations of, or marketable obligations guaranteed by, the United States of America; provided that such securities, as a group, may not, on the date of determination, have a remaining weighted average maturity of more than five years;

(b) marketable direct full faith and credit obligations of States of the United States or of political subdivisions or agencies; provided that such securities, as a group, may not, on the date of determination, have a remaining weighted average maturity of more than five years; and provided, further, that such obligations carry a rating of "A" or better by a Rating Service;

(c) publicly issued bonds or debentures which have a remaining maturity at the time of purchase of no more than five years issued by a corporation (other than the Company or an Affiliate thereof), organized under the laws of a State of the United States or the District of Columbia; provided, that such obligations carry a rating of "A" or better by a Rating Service;

(d) open market commercial paper of any corporation (other than the Company or an Affiliate thereof) incorporated under the laws of the United States of America or any State thereof or the District of Columbia rated not less than "P-2" or "A-2" or its equivalent by a Rating Service and maturing within 270 days after the date on which such commercial paper is purchased;

(e) certificates of deposit and bankers acceptances maturing within one year after the acquisition thereof issued by (i) Fleet National Bank, or (ii) any commercial bank organized under the laws of the United States of America or of any political subdivision thereof the long term obligations of which are rated "A" or better by a Rating Service;

(f) Eurodollar certificates of deposit maturing within one year after the acquisition thereof issued by any commercial bank having combined capital, surplus and undivided profits of at least \$1 billion;

(g) repurchase agreements, having terms of less than one year, for government obligations of the type described in (a) or (b) above, with a commercial bank or trust company meeting the requirements of clause (e) above;

(h) publicly issued collateralized mortgage obligations which have a remaining maturity at the time of purchase of no more than five years; provided, that such obligations carry a rating of "A" or better by a Rating Service;

(i) tax-exempt bonds or notes which have a remaining maturity at the time of purchase of no more than five years issued by any State of the United States or the District of Columbia, or any political subdivision thereof; provided, that such obligations carry a rating of "A" or better by a Rating Service;

(j) publicly issued shares of common or preferred stock issued by a corporation (other than the Borrower or an Affiliate thereof, unless otherwise permitted pursuant to Section 4-18 hereof), organized under the laws of any State of the United States or the District of Columbia, and bonds or debentures convertible into shares of such common or preferred stock, so long as (A) such securities have been registered under the Securities Exchange Act of 1934, as amended, and are traded on the New York Stock Exchange, the American Stock Exchange or NASDAQ, and (B) the senior debt securities of the issuer thereof (if any) are rated "A" or better by a Rating Service; provided, however, that the securities under this clause (j) may not at any time comprise more than 10% of the total assets of the Borrower; and

(k) interests in any fund or other pooled "open-end" investment vehicle which (i) is a registered investment company under the Investment Company Act of 1940, as amended and (ii) invests principally in obligations of any of the types described in clauses (a) through (j) above.

"Eligible L/C Inventory": Inventory, the purchase of which is supported by a documentary L/C then having an initial expiry of forty-five or less days, provided that

(a) Such Inventory is of such types, character, qualities and quantities (net of Inventory

Reserves) as the Agent in its reasonable discretion from time to time reasonably determines to be eligible for borrowing; and

(b) The documentary L/C supporting such purchase names the Agent or any Issuer as consignee of the subject Inventory and the Agent has control over the documents which evidence ownership of the subject Inventory (such as by the providing to the Agent of a customs brokers agreement in form reasonably satisfactory to the Agent).

"Employee Benefit Plan": As defined in ERISA.

"Encumbrance": Each of the following:

(a) Any security interest, mortgage, pledge, hypothecation, lien, attachment, or charge of any kind (including any agreement to give any of the foregoing); the interest of a lessor under a Capital Lease; conditional sale or other title retention agreement; sale of accounts receivable or chattel paper; or other arrangement pursuant to which any Person is entitled to any preference or priority with respect to the property or assets of another Person or the income or profits of such other Person or which constitutes an interest in property to secure an obligation; each of the foregoing whether consensual or non-consensual and whether arising by way of agreement, operation of law, legal process or otherwise.

(b) The filing of any financing statement under the UCC or comparable law of any jurisdiction.

"End Date": The date upon which both (a) all Liabilities have been paid in full and (b) all obligations of any Lender to make loans and advances and to provide other financial accommodations to the Borrower hereunder shall have been irrevocably terminated.

"Environmental Laws": All of the following:

(a) Any and all federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or requirements which regulate or relate to, or impose any standard of conduct or liability on account of or in respect to environmental protection matters, including, without limitation, Hazardous Materials, as are now or hereafter in effect.

(b) The common law relating to damage to Persons or property from Hazardous Materials.

"Equipment": Means "equipment" as defined in the UCC, and also all motor vehicles, rolling stock, machinery, office equipment, plant equipment, tools, dies, molds, store fixtures, furniture, and other goods, property, and assets which are used and/or were purchased for use in the operation or furtherance of the Borrower's business, and any and all accessions or additions thereto, and substitutions therefor.

"ERISA": The Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate": Any Person which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which would be treated as a single employer under Section 414 of the Internal Revenue Code of 1986, as amended.

"Events of Default": Is defined in Article 10.

"Fee Letter": That letter, styled the "Fee Letter" between the Borrower and the Agent dated June 4, 1998, as such letter may from time to time be amended.

"Fixtures": Has the meaning given that term in the UCC.

"Funding Account": Is defined in Section 7-3.

"GAAP": Principles which are consistent with those promulgated or adopted by the Financial Accounting Standards Board and its predecessors (or successors) in effect and applicable to that accounting period in respect of which reference to GAAP is being made, provided, however, in the event of a Material Accounting Change, then unless otherwise specifically agreed to by the Agent, (a) the Borrower's compliance with the financial performance covenants

imposed pursuant to Section 5-13 shall be determined as if such Material Accounting Change had not taken place (except for changes resulting from the conversion from the LIFO method of accounting to a method in which assets are reported at the lower of cost or market value), and (b) the Borrower shall include, with its monthly, quarterly, and annual financial statements a schedule, certified by the Borrower's chief financial officer, on which the effect of such Material Accounting Change to the statement with which provided shall be described.

"General Intangibles": Means "general intangibles" as defined in the UCC; and also all: rights to payment for credit extended; deposits; amounts due to the Borrower; credit memoranda in favor of the Borrower; warranty claims; tax refunds and abatement; insurance refunds and premium rebates; all means and vehicles of investment or hedging, including, without limitation, options, warrants, and futures contracts; records; customer lists; telephone numbers; goodwill; causes of action; judgments; payments under any settlement or other agreement; literary rights; rights to performance; royalties; license and/or franchise fees; rights of admission; licenses; franchises; license agreements, including all rights of the Borrower to enforce same; permits, certificates of convenience and necessity, and similar rights granted by any governmental authority; patents, patent applications, patents pending, and other intellectual property; internet addresses and domain names; developmental ideas and concepts; proprietary processes; blueprints, drawings, designs, diagrams, plans, reports, and charts; catalogs; manuals; technical data; computer software programs (including the source and object codes therefor), computer records, computer software, rights of access to computer record service bureaus, service bureau computer contracts, and computer data; tapes, disks, semi-conductors chips and printouts; trade secrets rights, copyrights, mask work rights and interests, and derivative works and interests; user, technical reference, and other manuals and materials; trade names, trademarks, service marks, and all goodwill relating thereto; applications for registration of the foregoing; and all other general intangible property of the Borrower in the nature of intellectual property; proposals; cost estimates, and reproductions on paper, or otherwise, of any and all concepts or ideas, and any matter related to, or connected with, the design, development, manufacture, sale, marketing, leasing, or use of any or all property produced, sold, or leased, by the Borrower or credit extended or services performed, by the Borrower, whether intended for an individual customer or the general business of the Borrower, or used or useful in connection with research by the Borrower.

"Goods": Has the meaning given that term in the UCC.

"Guarantors": All Subsidiaries of the Borrower, which now or hereafter own any assets, rights and interests in property, whether tangible or intangible.

"Hazardous Materials": Any (a) hazardous materials, hazardous waste, hazardous or toxic substances, petroleum products, which (as to any of the foregoing) are defined or regulated as a hazardous material in or under any Environmental Law and (b) oil in any physical state.

"Indebtedness": All indebtedness and obligations of or assumed by any Person on account of or in respect to any of the following:

(a) In respect of money borrowed (including any indebtedness which is non-recourse to the credit of such Person but which is secured by an Encumbrance on any asset of such Person) whether or not evidenced by a promissory note, bond, debenture or other written obligation to pay money.

(b) In connection with any letter of credit or acceptance transaction (including, without limitation, the face amount of all letters of credit and acceptances issued for the account of such Person or reimbursement on account of which such Person would be obligated).

(c) In connection with the sale or discount of accounts receivable or chattel paper of such Person.

(d) On account of deposits or advances.

(e) As lessee under Capital Leases.

(f) Indebtedness of others secured by an Encumbrance on any asset of such Person, whether or not such Indebtedness

is assumed by such Person.

(g) Any guaranty, endorsement, suretyship or other undertaking pursuant to which that Person may be liable on account of any obligation of any third party (other than (i) contingent and unliquidated indemnities delivered in the ordinary course of business and (ii) guarantees and endorsements resulting from the endorsement of negotiable instruments for collection in the ordinary course of business).

(h) The Indebtedness of a partnership or joint venture in which such Person is a general partner or joint venturer.

"Indemnified Person": Is defined in Section 14-11.

"Instruments": Has the meaning given that term in the UCC.

"Interest Payment Date": With reference to:

(a) Each LIBOR Loan: (i) Having an Interest Period of one, two or three months, the last day of the Interest Period relating thereto; the Termination Date, and the End Date; (ii) Having an Interest Period of six months, the last day of the third month of such Interest Period, the last day of the Interest Period, the Termination Date and the End Date.

(b) Each Base Margin Loan: the first day of each month; the Termination Date; and the End Date.

"Interest Period": (a) With respect to each LIBOR Loan: Subject to Subsection (c), below, the period commencing on the date of the making or continuation of, or conversion to, such LIBOR Loan and ending on (but excluding) the day which corresponds numerically to such date, one, two, three or six months thereafter, as the Borrower may elect by notice to the Agent.

(b) With respect to each Base Margin Loan: Subject to Subsection (c), below, the period commencing on the date of the making or continuation of or conversion to such Base Margin Loan and ending on that date (i) as of which the subject Base Margin Loan is converted to a LIBOR Loan, as the Borrower may elect by notice to the Agent, or (ii) on which the subject Base Margin Loan is paid by the Borrower.

(c) The setting of Interest Periods is in all instances subject to the following:

(i) Any Interest Period for a Base Margin Loan which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day.

(ii) Any Interest Period for a LIBOR Loan which would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day, unless that succeeding Business Day is in the next calendar month, in which event such Interest Period shall end on the last Business Day of the month during which the Interest Period ends.

(iii) Any Interest Period applicable to a LIBOR Loan, which Interest Period begins on a day for which there is no numerically corresponding day in the calendar month during which such Interest Period ends, shall end on the last Business Day of the month during which that Interest Period ends.

(iv) Any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date.

(v) Subject to Section (iii), above, no Interest Period applicable to a LIBOR Loan may be less than one (1) month.

(vi) The number of Interest Periods applicable to LIBOR Loans in effect at any one time is subject to Section 2-9 hereof.

"Investment Property": Has the meaning given that term in the UCC.

"Inventory": Means "inventory" as defined in the UCC and also all: packaging and shipping materials related to any of the foregoing; Goods held for sale or lease or furnished or to be furnished under a contract or contracts of sale or service by the Borrower, or used or consumed or to be used or consumed in the Borrower's business; Goods of said description in transit; returned, repossessed and rejected Goods of said description; and all documents (whether or not negotiable) which represent any of the foregoing.

"Inventory Advance Rate": Such percentage as the Agent in its reasonable discretion may establish from time to time, but in no event in excess of seventy percent(70%) or less than sixty-eight percent (68%). The initial Inventory Advance Rate shall be sixty-eight percent (68%).

"Inventory Reserves": Such Reserves as may be reasonably established from time to time by the Agent in the Agent's discretion with respect to the determination of the saleability, at retail, of the Acceptable Inventory or which reflect such other factors as affect the market value of the Acceptable Inventory. Without limiting the generality of the foregoing, Inventory Reserves may include (but are not limited to) reserves based on the following:

- (i) Seasonality.
- (ii) Shrinkage.
- (iii) Imbalance.
- (iv) Change in Inventory character that could have an adverse impact on the appraised value of the Inventory as determined by the Agent in its reasonable discretion.
- (v) Change in Inventory composition that could have an adverse impact on the appraised value of the Inventory as determined by the Agent in its reasonable discretion.
- (vi) Change in Inventory mix that could have an adverse impact on the appraised value of the Inventory as determined by the Agent in its reasonable discretion.
- (vii) Markdowns (both permanent and point of sale) not in the ordinary course of business and inconsistent with the Borrower's prior practices.
- (viii) Retail markons and markups inconsistent with the Borrower's prior practices.

"Issuer": The issuer of any L/C.

"June 2000 Resolution": Means the June 26, 2000 resolution of the Board of Directors of the Borrower pursuant to which, among other things, the Board of Directors authorized the Borrower to pay an amount not to exceed \$2,500,000.00 in the aggregate to repurchase certain shares of the Borrower's capital stock.

"L/C": Any letter of credit, the issuance of which is procured by the Agent for the account of the Borrower and any acceptance made on account of such letter of credit.

"Lease": Any lease or other agreement, no matter how styled or structured, pursuant to which the Borrower is entitled to the use or occupancy of any space.

"Leasehold Interest": Any interest of the Borrower as lessee under any Lease.

"Lenders": Defined in the Preamble to this Agreement.

"Letter-of-Credit Right": Has the meaning given that term in UCC 9'99 and also refers to any right to payment or performance under an L/C, whether or not the beneficiary has demanded or is at the time entitled to demand payment or performance.

"Liabilities" (in the singular, "Liability"): Means all and each of the following, whether now existing or hereafter arising under this Agreement or any other Loan Document:

- (a) Any and all direct and indirect liabilities, debts, and obligations of the Borrower to the Agent or any Lender, each of every kind, nature, and description.
- (b) Each obligation to repay any loan, advance, indebtedness, note, obligation, overdraft, or amount now or hereafter owing by the Borrower to the Agent or any Lender (including all future advances whether or not made pursuant to a commitment by the Agent or any Lender), whether or not any of such are liquidated, unliquidated, primary, secondary, secured, unsecured, direct, indirect, absolute, contingent, or of any other type, nature, or description, or by reason of any cause of action which the Agent or any Lender may hold against the Borrower.

(c) All notes and other obligations of the Borrower now or hereafter assigned to or held by the Agent or any Lender, each of every kind, nature, and description.

(d) All interest, reasonable fees, and charges and other amounts which may be charged by the Agent or any Lender to the Borrower and/or which may be due from the Borrower to the Agent or any Lender from time to time.

(e) All reasonable costs and expenses incurred or paid by the Agent or any Lender in respect of any agreement between the Borrower and Agent or any Lender or instrument furnished by the Borrower to the Agent or any Lender (including, without limitation, Administrative Costs, attorneys' reasonable fees, and all court and litigation costs and expenses).

(f) Each of the foregoing as if each reference to the "Agent and each Lender" therein were to each Affiliate of the Agent or any Lender.

"LIBOR Business Day": Any day which is both a Business Day and a day on which the principal interbank market for LIBOR deposits in London in which Fleet National Bank participates is open for dealings in United States Dollar deposits.

"LIBOR Loan": Any Revolving Credit Loan which bears interest at a LIBOR Rate.

"LIBOR Offer Rate": That rate of interest (rounded upwards, if necessary, to the next 1/100 of 1%) determined by the Agent to be the prevailing rate per annum at which deposits on U.S. Dollars are offered to Fleet National Bank, by first-class banks in the London interbank market in which Fleet National Bank participates at or about 10:00 AM (Boston Time) Two (2) LIBOR Business Days before the first day of the Interest Period for the subject LIBOR Loan, for a deposit approximately in the amount of the subject loan for a period of time approximately equal to such Interest Period.

"LIBOR Rate": That per annum rate determined as the aggregate of the LIBOR Offer Rate plus the LIBOR Margin except that, in the event that it is determined by the Agent that any Lender may be subject to the Reserve Percentage, the "LIBOR Rate" shall mean, with respect to any LIBOR Loans then outstanding (from the date on which that Reserve Percentage first became applicable to such loans), and with respect to all LIBOR Loans thereafter made, an interest rate per annum equal to the sum of (a) plus (b), where:

(a) is the decimal equivalent of the following fraction:

$$\frac{\text{LIBOR Offer Rate}}{1 \text{ minus Reserve Percentage}}$$

(b) the Applicable Margin for LIBOR Loans.

"Line (Unused) Fee": Is defined in Section 2-11.

"Loan Account": Is defined in Section 2-6.

"Loan Ceiling": \$45,000,000.00.

"Loan Documents": This Agreement, each instrument and document executed and/or delivered as contemplated by Article 3, below, and each other instrument or document from time to time executed and/or delivered in connection with the arrangements contemplated hereby, the Master Lease Agreement between the Borrower and Winthrop Resources Corporation (which has been assigned to an Affiliate of the Agent), and any other instruments, documents, agreements and facilities heretofore or hereafter entered into in connection with or relating to any transaction which arises out of any cash management, depository, investment, letter of credit, or interest rate protection services provided by the Agent or any Lender or any Affiliate of the Agent or any Lender, as each may be amended from time to time.

"Material Accounting Change": Any change in GAAP applicable to accounting periods subsequent to the Borrower's fiscal year most recently completed prior to the execution of this Agreement, which change has a material effect on the Borrower's financial condition or operating results, as reflected on financial statements and reports prepared by or

for the Borrower, when compared with such condition or results as if such change had not taken place or where preparation of the Borrower's statements and reports in compliance with such change results in the breach of a financial performance covenant imposed pursuant to Section 5-13 where such a breach would not have occurred if such change had not taken place or vice versa.

"Maturity Date": November 30, 2003.

"Obligors": Collectively, the Borrower and the Guarantors.

"Participant": Is defined in Section 14-14, hereof.

"Payment Intangible": Has the meaning given that term in UCC 9'99 and also refers to any general intangible under which the Account Debtor's primary obligation is a monetary obligation.

"Permitted Acquisition": An Acquisition complying with the following:

- (A) Such acquisition shall be of assets ancillary, incidental or necessary to the retail sale of apparel and related activities, or of 100% of the stock of a corporation whose assets consist substantially of such assets, or through the merger of such a corporation with the Borrower (with the Borrower as the surviving corporation), or with a Subsidiary of the Borrower where, giving effect to such merger, such corporation becomes a wholly-owned Subsidiary of the Borrower; and
- (B) If such acquisition includes the acquisition of assets by, or the merger of, the Borrower, there shall have been no change in the identity of the president, chief financial officer or any executive vice president of the Borrower as a consequence of such acquisition, or if there has been such a change, the Lender shall have consented in writing to such change in identity within thirty (30) days thereafter (which consent shall not be unreasonably withheld or delayed); and
- (C) If a new Subsidiary is formed or acquired as a result of such Acquisition, such Subsidiary shall execute documentation, reasonably satisfactory in form and substance to the Agent, guarantying payment and performance of the Liabilities and granting a first lien, subject only to Permitted Encumbrances, in its assets in favor of the Agent, for the ratable benefit of the Lenders,

"Permitted Encumbrances": Those Encumbrances permitted as provided in Section 4-6(a) hereof.

"Person": Any natural person, and any corporation, limited liability company, trust, partnership, joint venture, or other enterprise or entity.

"Proceeds": Means "Proceeds" as defined in the UCC (defined below), and each type of property described in Section 8-1 hereof.

"Rating Service": Either or both of Moody's Investors Services, Inc. or Standard & Poor's Corporation.

"Receipts": All cash, cash equivalents, checks, and credit card slips and receipts as arise out of the sale of the Collateral or any collateral granted by the Borrower to the Agent.

"Receivables Collateral": That portion of the Collateral which consists of the Borrower's Accounts, Accounts Receivable, contract rights, General Intangibles, Payment Intangibles, Letter of Credit Rights, Chattel Paper, Instruments, Documents of Title, Documents, Investment Property, letters of credit for the benefit of the Borrower, and bankers' acceptances held by the Borrower, and any rights to payment.

"Related Entity": (a) Any corporation, limited liability company, trust, partnership, joint venture, or other enterprise which: is a parent, brother-sister, or Subsidiary, of the Borrower; could have such enterprise's tax returns or financial statements consolidated with the Borrower's; could be a member of the same controlled group of corporations (within the meaning of Section 1563(a)(1), (2) and (3) of the Internal Revenue Code of 1986, as amended from time to time) of which

the Borrower is a member; controls or is controlled by the Borrower or by any Affiliate of the Borrower.

(b) Any Affiliate.

"Requirement of Law": As to any Person:

(a)(i) All statutes, rules, regulations, orders, or other requirements having the force of law and (ii) all court orders and injunctions, arbitrator's decisions, and/or similar rulings, in each instance ((i) and (ii)) of or by any federal, state, municipal, and other governmental authority, or court, tribunal, panel, or other body which has or claims jurisdiction over such Person, or any property of such Person, or of any other Person for whose conduct such Person would be responsible.

(b) That Person's charter, certificate of incorporation, articles of organization, and/or other organizational documents, as applicable; and (c) that Person's by-laws and/or other instruments which deal with corporate or similar governance, as applicable.

"Reserves": All (if any) Availability Reserves and Inventory Reserves.

"Reserve Percentage": The decimal equivalent of that rate applicable to a Lender under regulations issued from time to time by the Board of Governors of the Federal Reserve System for determining the maximum reserve requirement of that Lender with respect to "Eurocurrency liabilities" as defined in such regulations. The Reserve Percentage applicable to a particular LIBOR Loan shall be based upon that in effect during the subject Interest Period, with changes in the Reserve Percentage which take effect during such Interest Period to take effect (and to consequently change any interest rate determined with reference to the Reserve Percentage) if and when such change is applicable to such loans. As of the date hereof, the Agent acknowledges that the Reserve Percentage is zero.

"Revolving Credit": Is defined in Section 2-1.

"Revolving Credit Note": Is defined in Section 2-7.

"SEC": The Securities and Exchange Commission.

"Stated Amount": The maximum amount for which an L/C may be honored.

"Subsidiary": With respect to any Person, any corporation, partnership or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions are at the time directly or indirectly owned by such Person.

"Supporting Obligation": Has the meaning given that term in UCC 9'99 and also refers to a Letter-of-Credit Right or secondary obligation which supports the payment or performance of an Account, Chattel Paper, a Document, a General Intangible, an Instrument, or Investment Property.

"Suspension Event": Any occurrence, circumstance, or state of facts which (a) is an Event of Default; or (b) would become an Event of Default if any requisite notice were given and/or any requisite period of time were to run and such occurrence, circumstance, or state of facts were not cured within any applicable grace period.

"Termination Date": The earliest of (a) the Maturity Date; or (b) the occurrence of any event described in Section 10-12 hereof; or (c) date set by notice by the Agent to the Borrower, which notice sets the Termination Date on account of the occurrence of any Event of Default other than as described in Section 10-12 hereof.

"UCC": The Uniform Commercial Code as in effect in Massachusetts from time to time (Mass. Gen. Laws, Ch. 106).

"UCC9'99": The Uniform Commercial Code, Article 9, 1999 Official Text, except that following the effectiveness, in Massachusetts, of the revision of Article 9 of the Uniform Commercial Code contemplated by UCC9'99 (with such nonuniform variations as may be adopted as part of the enactment of that revision), each reference to "UCC9'99" shall be to the UCC.

ARTICLE 2- THE REVOLVING CREDIT

2-1. ESTABLISHMENT OF REVOLVING CREDIT.

(a) The Lenders hereby establish a revolving line of credit (the "Revolving Credit") in the Borrower's favor pursuant to which each Lender, subject to, and in accordance with, this Agreement, acting through the Agent, shall make loans and advances and otherwise provide financial accommodations to and for the account of the Borrower as provided herein, in each instance equal to that Lender's Commitment Percentage of Availability, up to the maximum amount of that Lender's Dollar Commitment. The amount of the Revolving Credit shall be reasonably determined by the Agent by reference to Availability, as determined by the Agent from time to time hereafter. All loans made under this Agreement, and all of the Borrower's other Liabilities, are payable as provided herein.

(b) As used herein, the term "Availability" refers at any time to the lesser of (i) or (ii), below, where:

- (i) Is the result of:
 - (A) The Loan Ceiling.
 - MINUS
 - (B) The then unpaid principal balance of the Loan Account.
 - MINUS
 - (C) The then aggregate of such Availability Reserves as may have been established by the Agent as provided herein.
 - MINUS
 - (D) The then outstanding Stated Amount of all L/C's.

- (ii) Is the result of:
 - (A) The lesser of (1) the Appraised Inventory Percentage of the Appraised Inventory Liquidation Value, or (2) up to the then applicable Inventory Advance Rate of the Cost of Acceptable Inventory.
 - MINUS
 - (B) The then unpaid principal balance of the Loan Account.
 - MINUS
 - (C) The then aggregate of such Availability Reserves as may have been established by the Agent as provided herein.
 - MINUS
 - (D) The then outstanding Stated Amount of all L/C's.

(c) Availability shall be based upon Borrowing Base Certificates furnished as provided in Section 5-4 hereof.

(d) The proceeds of borrowings under the Revolving Credit shall be used solely for working capital purposes of the Borrower, for Permitted Acquisitions, for redemption, retirement, purchase or acquisition of any of the Borrower's Capital Stock, and for Capital Expenditures, all solely to the extent permitted by this Agreement.

2-2. ADVANCES IN EXCESS OF BORROWING BASE. No Lender has any obligation to make any loan or advance, or otherwise to provide any credit for the benefit of the Borrower such that the balance of the Loan Account exceeds the Borrowing Base. The making of loans, advances, and credits and the providing of financial accommodations in excess of the Borrowing Base is for the benefit of the Borrower and does not affect the obligations of the Borrower hereunder; such loans, advances, credits, and financial accommodations constitute Liabilities. The making of any such loans, advances, and credits and the providing of financial accommodations, on any one occasion such that the Borrowing Base is exceeded shall not obligate any Lender to make any such loans, credits, or advances or to provide any financial accommodation on any other occasion nor to permit such loans, credits, or advances to remain outstanding.

2-3. RISKS OF VALUE OF COLLATERAL. The Agent's reference to a given asset in connection with the making of loans, credits, and advances and the providing of financial accommodations under the Revolving Credit and/or the monitoring of compliance with the provisions hereof shall not be deemed a determination by the Agent or any Lender relative to the actual value of the asset in question. All risks concerning the saleability of the Borrower's Inventory are and remain upon the Borrower. All Collateral secures the prompt, punctual, and faithful performance of the Liabilities whether or not relied upon by the Agent or by any Lender in connection with the making of loans, credits, and advances and the providing of financial accommodations under the Revolving Credit.

2-4. LOAN REQUESTS.

(a) Subject to the provisions of this Agreement, a loan or advance under the Revolving Credit duly and timely requested by the Borrower shall be made by the Lenders pursuant hereto, provided that:

- (i) Borrowing Base will not be exceeded; and

(ii) The Revolving Credit has not been suspended as provided in Section 2-4(i).

(b) Subject to the provisions of this Agreement, the Borrower may request a Revolving Credit Loan and elect an interest rate and Interest Period to be applicable to that Revolving Credit Loan by giving the Agent written notice or telephonic notice confirmed in writing (in the form of EXHIBIT 2-4 hereof) no later than the following:

(i) If such Loan is or is to be converted to a Base Margin Loan: By 11:30 AM on the Business Day on which the subject Revolving Credit Loan is to be made or is to be so converted.

(ii) If such Loan is or is to be continued as a LIBOR Loan: By 1:00 PM Three (3) Business Days before the end of the then applicable Interest Period or before the day on which such Loan is to be made.

(iii) If such Loan is to be converted to a LIBOR Loan: By 1:00 PM Three (3) Business Days before the day on which such conversion is to take place.

(c) (i) Base Margin Loans and conversions to Base Margin Loans shall be in a minimum amount of \$10,000.00 each.

(ii) LIBOR Loans and conversions to LIBOR Loans shall each be not less than \$500,000.00 and in \$500,000.00 increments in excess of such minimum.

(d) Any request for a Revolving Credit Loan or for the conversion of a Revolving Credit Loan which is made after the applicable deadline therefor, as set forth above, shall be deemed to have been made at the opening of business on the next Business Day or LIBOR Business Day, as applicable. Each request for a Revolving Credit Loan or for the conversion of a Revolving Credit Loan shall be made in such manner as may from time to time be acceptable to the Agent

(e) If, during the Sixty (60) days immediately preceding the day on which a loan request is made there has been no unpaid principal balance in the Loan Account on account of loans and advances under the Revolving Credit, the loan so requested shall be made (subject to all other provisions of this Agreement) no later than the Second Business Day after (and not counting) the day on which the loan otherwise would have been made as provided above.

(f) The Borrower may request that the Agent cause the issuance of L/C's for the account of the Borrower as provided in Section 2-15.

(g) The Agent may rely on any request for a loan or advance, or other financial accommodation under the Revolving Credit which the Agent, in good faith, believes to have been made by a person duly authorized to act on behalf of the Borrower and may decline to make any such requested loan or advance, or issuance, or to provide any such financial accommodation pending the Agent's being furnished with such documentation concerning that person's authority to act as may be reasonably satisfactory to the Agent.

(h) A request by the Borrower for loan or advance, or other financial accommodation under the Revolving Credit shall be irrevocable and shall constitute certification by the Borrower that as of the date of such request, each of the following is true and correct:

(i) There has been no material adverse change in the Borrower's financial condition from the most recent financial information furnished Agent or any Lender pursuant to this Agreement.

(ii) The Borrower is in compliance with, and has not breached any of, its covenants contained in this Agreement.

(iii) Each representation which is made herein or in any of the Loan Documents (defined below) is then true and complete as of and as if made on the date of such request.

(iv) No Suspension Event is then extant.

(i) Upon the occurrence from time to time of any Suspension Event:

(i) The Agent may suspend the Revolving Credit immediately.

(ii) Neither the Agent nor any Lender shall be obligated, during such suspension, to make any loans or advance, or to provide any financial accommodation hereunder or to seek the issuance of any L/C.

2-5. MAKING OF LOANS UNDER REVOLVING CREDIT.

(a) A loan or advance under the Revolving Credit shall be made by the transfer of the proceeds of such loan or advance to the Funding Account or as otherwise instructed by the Borrower.

(b) A loan or advance shall be deemed to have been made under the Revolving Credit (and the Borrower shall be indebted to the Agent for the amount thereof immediately) at the following:

(i) The Agent's initiation of the transfer of the proceeds of such loan or advance in accordance with the Borrower's instructions (if such loan or advance is of funds requested by the Borrower).

(ii) The charging of the amount of such loan to the Loan Account (in all other circumstances).

(c) There shall not be any recourse to or liability of the Agent or any Lender, on account of any delay in the receipt, and/or any loss, of funds which constitute a loan or advance under the Revolving Credit, the wire transfer of which was properly initiated by the Agent in accordance with wire instructions provided to the Agent by the Borrower.

2-6. THE LOAN ACCOUNT.

(a) An account ("Loan Account") shall be opened on the books of the Agent. A record shall be kept in the Loan Account of all loans made under or pursuant to this Agreement and of all payments thereon.

(b) The Agent shall also keep a record (either in the Loan Account or elsewhere, as the Agent may from time to time elect) of all interest, fees, service charges, costs, expenses, and other debits owed the Lender on account of the Liabilities and of all credits against such amounts so owed.

(c) All credits against the Liabilities shall be conditional upon final payment to the Agent for the Account of each Lender of the items giving rise to such credits. The amount of any item credited against the Liabilities which is charged back against Agent or any Lender for any reason or is not so paid shall be a Liability and shall be added to the Loan Account, whether or not the item so charged back or not so paid is returned.

(d) Except as otherwise provided herein, all fees, service charges, costs, and expenses for which the Borrower is obligated hereunder are payable on demand. In the determination of Availability, the Agent may deem fees, service charges, accrued interest, and other payments as having been advanced under the Revolving Credit whether or not such amounts are then due and payable.

(e) The Agent, without the request of the Borrower, may advance under the Revolving Credit any interest, fee, service charge, or other payment to which the Agent or any Lender is entitled from the Borrower pursuant hereto and may charge the same to the Loan Account notwithstanding that such amount so advanced may result in Borrowing Base's being exceeded. Such action on the part of the Agent shall not constitute a waiver of the Agent's rights and Borrower's obligations under Section 2-8(b). Any amount which is added to the principal balance of the Loan Account as provided in this Section 2-6(e) shall bear interest.

(f) Any statement rendered by the Agent or any Lender to the Borrower concerning the Liabilities shall be considered correct and accepted by the Borrower and shall be conclusively binding upon the Borrower unless the Borrower provides the Agent with written objection thereto within thirty (30) days from the mailing of such statement, which written objection shall indicate, with particularity, the reason for such objection. The Loan Account and the Agent's books and records concerning the loan arrangement contemplated herein and the Liabilities shall be prima facie evidence and proof of the items described therein, absent manifest error.

2-7. THE REVOLVING CREDIT NOTES. The obligation to repay loans and advances under the Revolving Credit, with interest as provided herein, shall be evidenced by Notes (each, a "Revolving Credit Note") in the form of EXHIBIT 2-7, annexed hereto, executed by the Borrower, one payable to each Lender. Neither the original nor a copy of any Revolving Credit Note shall be required, however, to establish or prove any Liability. In the event that any Revolving Credit Note is ever lost, mutilated, or destroyed, the Borrower shall execute a replacement thereof and deliver such replacement to the Agent.

2-8. PAYMENT OF THE LOAN ACCOUNT.

(a) The Borrower may repay all or any portion of the principal balance of the Loan Account from time to time until the Termination Date.

(b) The Borrower, without notice or demand from the Agent or any Lender, shall pay the Agent that amount, from time to time, which is necessary so that the unpaid balance of the Loan Account does not exceed the Borrowing Base.

(c) The Borrower shall repay the then entire unpaid balance of the

Loan Account and all other Liabilities on the Termination Date.

2-9. INTEREST.

(a) Each Revolving Credit Loan shall bear interest (determined based on a 360 day year and actual days elapsed) at the Base Margin Rate unless timely notice is given (as provided in Section 2-4(a)) that the subject Revolving Credit Loan (or a portion thereof) is, or is to be converted to, a LIBOR Loan.

(b) Each Revolving Credit Loan which consists of a LIBOR Loan shall bear interest at the applicable LIBOR Rate.

(c) Subject to the provisions hereof, the Borrower, by notice to the Agent, may cause all or a part of the unpaid principal balance of the Loan Account to bear interest at the Base Margin Rate or the LIBOR Rate as specified from time to time by the Borrower. For ease of reference and administration, each part of the Loan Account which bears interest at the same interest and for the same Interest Period is referred to herein as if it were a separate "Revolving Credit Loan".

(d) The Borrower shall not select, renew, or convert any interest rate for a Revolving Credit Loan such that there are more than seven (7) Interest Periods applicable to the LIBOR Loans at any one time.

(e) The Borrower shall pay accrued and unpaid interest on each Revolving Credit Loan in arrears

(i) On the applicable Interest Payment Date for that Revolving Credit Loan.

(ii) On the Termination Date and on the End Date.

(iii) Following the occurrence, and during the continuance, of any Event of Default, with such frequency as may be determined by the Agent.

(f) Following the occurrence, and during the continuance, of any Event of Default (whether or not the Agent exercises the Agent's rights on account thereof), all Revolving Credit Loans shall bear interest, at the option of the Agent, at the aggregate of the Base Margin Rate plus Two Percent (2%) per annum. The Agent shall furnish the Borrower with prompt written notice of the Agent's election to institute the default rate of interest hereunder.

(g) In addition, in the event of the occurrence of any of the circumstances described in Section 2-18 hereof, and during the continuance thereof, each Revolving Credit Loan shall bear interest (determined based on a 360 day year and actual days elapsed) at the Base Margin Rate.

2-10. COMMITMENT FEE; AGENT'S FEE.

(a) As compensation for the commitment of Fleet Retail Finance Inc. to make loans and advances to the Borrower and as compensation for its maintenance of sufficient funds available for such purpose, Fleet Retail Finance Inc. has earned a Commitment Fee (so referred to herein) at the times and in the amounts as set forth in the Fee Letter and an Amendment Fee (so referred to herein) at the times and in the amounts as set forth in the Amendment Fee Letter.

(b) As compensation for Fleet Retail Finance Inc.'s serving as Agent hereunder, Fleet Retail Finance Inc. will earn an Agent's Fee (so referred to herein) payable by the Borrower at the times and in the amounts as set forth in the Fee Letter.

2-11. LINE FEE.

In addition to any other fee by the Borrower on account of the Revolving Credit, the Borrower shall pay the Agent a Line (Unused) Fee (so referred to herein) in arrears, on the first day of each month (and on the Termination Date). The Line Fee shall be equal to 0.375% per annum of the average daily difference, during the month just ended (or relevant period with respect to the payment being made on the Termination Date), between the Loan Ceiling and the unpaid principal balance of the Loan Account.

2-12. EARLY TERMINATION FEE.

In the event that the Termination Date occurs, for any reason, prior to November 30, 2002, the Borrower shall pay the Agent, for the benefit of the Lenders, the Early Termination Fee (so referred to herein) in an amount equal to (a) one percent (1%) of the Loan Ceiling if the Termination Date occurs prior to November 30, 2001, or (b) one-half of one percent (0.50%) of the Loan Ceiling if the Termination Date occurs on or after November 30, 2001 and prior to November 30, 2002, provided that, the Early Termination Fee shall be waived if the Liabilities are refinanced by a facility furnished by Fleet Retail Finance Inc. or any of its Affiliates (nothing herein being deemed the commitment or agreement of Fleet Retail Finance Inc. or any of its Affiliates to so refinance the Liabilities).

2-13. REGARDING FEES.

The Borrower shall not be entitled to any credit, rebate or repayment of the Commitment Fee, Line (Unused) Fee, Early Termination Fee, Agent's Fee or other fee previously earned by the Agent or any Lender pursuant to this Agreement notwithstanding any termination of this Agreement or suspension or termination of the Agent's and any Lender's respective obligation to make loans and advances hereunder.

2-14. AGENT'S AND LENDERS' DISCRETION.

(a) Each reference in the Loan Documents to the exercise of discretion or the like by the Agent or any Lender shall be to that Person's exercise of its reasonable judgement, in good faith, based upon that Person's consideration of any such factor as the Agent or that Lender, taking into account information of which that Person then has actual knowledge, believes:

- (i) Will or reasonably could be expected to affect the value of the Collateral, the enforceability of the Agent's security and collateral interests therein, or the amount which the Agent would likely realize therefrom (taking into account delays which may possibly be encountered in the Lender's realizing upon the Collateral and likely Administrative Costs).
- (ii) Indicates that any report or financial information delivered to the Agent or any Lender by or on behalf of the Borrower is incomplete, inaccurate, or misleading in any material manner or was not prepared in accordance with the requirements of this Agreement.
- (iii) Would likely result in the Borrower's becoming the subject of a bankruptcy or insolvency proceeding.
- (iv) Constitutes a Suspension Event.

(b) In the exercise of such judgement, the Agent and each Lender also may take into account any of the following factors:

- (i) Those included in, or tested by, the definitions of "Acceptable Inventory," "Retail," and "Cost".
- (ii) Material changes in or to the mix of the Borrower's Inventory.
- (iii) Seasonality with respect to the Borrower's Inventory and patterns of retail sales.
- (iv) Such other factors as the Agent and each Lender determines as having a material bearing on credit risks associated with the providing of loans and financial accommodations to the Borrower.

(c) The burden of establishing the failure of the Agent or any Lender to have acted in a reasonable manner in such Person's exercise of discretion shall be the Borrower's.

2-15. PROCEDURES FOR ISSUANCE OF L/C'S.

(a) The Borrower may request that the Agent cause the issuance of L/C's for the account of the Borrower. Each such request shall be in such manner as may from time to time be acceptable to the Agent.

(b) The Agent will cause the issuance of any L/C so requested by the Borrower, provided that, at the time that the request is made, the Revolving Credit has not been suspended as provided in Section 2-4(i) and if so issued:

- (i) The aggregate Stated Amount of all L/C's then outstanding, does not exceed Ten Million Dollars (\$10,000,000.00).
- (ii) The expiry of the L/C is not later than the earlier of Thirty (30) days prior to the Maturity Date (unless the Borrower provides cash collateral reasonably acceptable to the Agent in an amount equal to 103% of the Stated Amount of any L/C having an expiry after that date) or the following:
 - (A) Standby's: One (1) year from initial issuance.
 - (B) Documentary's: One Hundred (100) days from issuance.
- (iii) Borrowing Base would not be exceeded.

(c) The Borrower shall execute such documentation to apply for and support the issuance of an L/C as may be required by the Issuer.

(d) There shall not be any recourse to, nor liability of, the Agent or any Lender on account of

- (i) Any delay or refusal by an Issuer to issue an L/C;
- (ii) Any action or inaction of an Issuer on account of or in respect to, any L/C.

(e) The Agent, without the request of the Borrower, may advance under the Revolving Credit (and charge to the Loan Account) the amount of any honoring of any L/C and other amount for which the Borrower, the Issuer, or the Lenders become obligated on account of, or in respect to, any L/C. Such advance shall be made whether or not a Suspension Event is then extant or such advance would result in Borrowing Base's being exceeded. Such action shall not constitute a waiver of the Agent's rights under Section 2-8(b) hereof.

2-16. FEES FOR L/C'S.

(a) The Borrower shall pay to the Agent a fee, on account of L/C's, the issuance of which had been procured by the Agent, monthly in arrears, and on the Termination Date and on the End Date, equal to 2 % per annum of the weighted average Stated Amount of all L/C's outstanding during the period in respect of which such fee is being paid.

(b) In addition to the fee to be paid as provided in Subsection 2-16(a), above, the Borrower shall pay to the Agent (or to the Issuer, if so requested by Agent), on demand, all issuance, processing, negotiation, amendment, and administrative fees and other amounts charged by the Issuer on account of, or in respect to, any L/C.

2-17. CONCERNING L/C'S.

(a) None of the Issuer, the Issuer's correspondents, or any advising, negotiating, or paying bank with respect to any L/C shall be responsible in any way for:

- (i) The performance by any beneficiary under any L/C of that beneficiary's obligations to the Borrower.
- (ii) The form, sufficiency, correctness, genuineness, authority of any person signing; falsification; or the legal effect of; any documents called for under any L/C if (with respect to the foregoing) such documents on their face appear to be in order.

(b) The Issuer may honor, as complying with the terms of any L/C and of any drawing thereunder, any drafts or other documents otherwise in order, but signed or issued by an administrator, executor, conservator, trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, liquidator, receiver, or other legal representative of the party authorized under such L/C to draw or issue such drafts or other documents.

(c) Unless otherwise agreed to, in the particular instance, the Borrower hereby authorizes any Issuer to:

- (i) Select an advising bank, if any.
- (ii) Select a paying bank, if any.
- (iii) Select a negotiating bank.

(d) All directions, correspondence, and funds transfers relating to any L/C are at the risk of the Borrower. The Issuer shall have discharged the Issuer's obligations under any L/C which, or the drawing under which, includes payment instructions, by the initiation of the method of payment called for in, and in accordance with, such instructions (or by any other commercially reasonable and comparable method). None of the Agent, any Lender, nor the Issuer shall have any responsibility for any inaccuracy, interruption, error, or delay in transmission or delivery by post, telegraph or cable, or for any inaccuracy of translation.

(e) The Agent's, each Lender's, and the Issuer's rights, powers, privileges and immunities specified in or arising under this Agreement are in addition to any heretofore or at any time hereafter otherwise created or arising, whether by statute or rule of law or contract.

(f) Except to the extent otherwise expressly provided hereunder or agreed to in writing by the Issuer and the Borrower, each L/C will be governed by the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce, Publication No. 500, and any subsequent revisions thereof.

(g) If any change in any law, executive order or regulation, or any directive of any administrative or governmental authority (whether or not having the force of law), or in the interpretation thereof by any court or administrative or governmental authority charged with the administration thereof, shall either:

- (i) impose, modify or deem applicable any reserve, special deposit or similar requirements against letters of credit heretofore or hereafter issued by any Issuer or with respect to which the Agent, any Lender or any Issuer has an obligation to lend to fund drawings under any L/C; or
- (ii) impose on any Issuer any other condition or requirements

relating to any such letters of credit;

and the result of any event referred to in Section 2-17(g)(i) or 2-17(g)(ii), above, shall be to increase the cost to any Issuer of issuing or maintaining any L/C (which increase in cost shall be the result of such Issuer's reasonable allocation among that Issuer's letter of credit customers of the aggregate of such cost increases resulting from such events), then, upon demand by the Agent and delivery by the Agent to the Borrower of a certificate of an officer of the subject Issuer describing such change in law, executive order, regulation, directive, or interpretation thereof, its effect on such Issuer, and the basis for determining such increased costs and their allocation, the Borrower shall immediately pay to the Agent, from time to time as reasonably specified by the Agent, such amounts as shall be sufficient to compensate such Issuer for such increased cost. Any Issuer's determination of costs incurred under Section 2-17(g)(i) or 2-17(g)(ii), above, and the allocation, if any, of such costs among the Borrower and other letter of credit customers of such Issuer, if done in good faith and made on an equitable basis and in accordance with such officer's certificate, shall be conclusive and binding on the Borrower.

(h) The obligations of the Borrower under this Agreement with respect to L/C's are absolute, unconditional, and irrevocable and shall be performed strictly in accordance with the terms hereof under all circumstances, whatsoever including, without limitation, the following:

- (i) Any lack of validity or enforceability or restriction, restraint, or stay in the enforcement of this Agreement, any L/C, or any other agreement or instrument relating thereto.
- (ii) Any amendment or waiver of, or consent to the departure from, any L/C.
- (iii) The existence of any claim, set-off, defense, or other right which the Borrower may have at any time against the beneficiary of any L/C.
- (iv) Any good faith honoring of a drawing under any L/C, which drawing possibly could have been dishonored based upon a strict construction of the terms of the L/C.

2-18. CHANGED CIRCUMSTANCES.

(a) The Agent may give the Borrower notice of the occurrence of the following:

- (i) The Agent shall have determined in good faith on any day on which the rate for a LIBOR Loan would otherwise be set, that, by reason of changes affecting the London interbank market, adequate and fair means do not exist for ascertaining such rate on the basis provided for in the definition of LIBOR Offer Rate.
- (ii) The Agent shall have determined in good faith that:
 - (A) The continuation of or conversion of any Revolving Credit Loan to a LIBOR Loan has been made impracticable or unlawful by the occurrence of a change in law occurring after the date of this Agreement that materially and adversely affects the applicable market or compliance by the Agent or any Lender in good faith with any applicable law or governmental regulation, guideline or order or interpretation or change thereof by any governmental authority charged with the interpretation or administration thereof or with any request or directive of any such governmental authority (whether or not having the force of law).
 - (B) The indices on which the interest rates for LIBOR Loans are determined shall no longer represent the effective cost to the Agent or any Lender for U.S. dollar deposits in the interbank market for deposits in which it regularly participates.

(b) In the event that the Agent gives the Borrower notice of an occurrence described in Section 2-18(a), then, until the Agent notifies the Borrower that the circumstances giving rise to such notice no longer apply:

- (i) The obligation of the Agent and of each Lender to make LIBOR Loans of the type affected by such changed circumstances or to permit the Borrower to select the affected interest rate as otherwise applicable to any Revolving Credit Loans shall be suspended.
- (ii) Any notice which the Borrower had given the Agent with respect to any LIBOR Loan, the time for action with respect to which has not occurred prior to the Agent's having given notice pursuant to Section 2-18(a), shall be deemed at the option of the Agent to not having been given and such loan

shall be made or continued as, or converted into, as appropriate, a Base Margin Loan.

- (iii) Subject to the provisions of Section 2-11, the Borrower may (and shall, with respect to the occurrence of any event described in Section 2-18(a)(ii)), cancel the relevant borrowing or conversion notice on the same date the Borrower was notified of such event, or if the LIBOR Loan is then outstanding, prepay the affected LIBOR Loan.

2-19. INCREASED COSTS.

If, as a result of any requirement of law, or of the interpretation or application thereof by any court or by any governmental or other authority or entity charged with the administration thereof, whether or not having the force of law, which:

(a) subjects any Lender to any taxes or changes the basis of taxation, or increases any existing taxes, on payments of principal, interest or other amounts payable by the Borrower to the Agent or any Lender under this Agreement (except for taxes on the Agent or any Lender's overall net income or capital imposed by the jurisdiction in which the Agent or that Lender's principal or lending offices are located);

(b) imposes, modifies or deems applicable any reserve, cash margin, special deposit or similar requirements against assets held by, or deposits in or for the account of or loans by or any other acquisition of funds by the relevant funding office of any Lender;

(c) . imposes on any Lender any other condition with respect to any Loan Document; or

(d) imposes on any Lender a requirement to maintain or allocate capital in relation to the Liabilities; and the result of any of the foregoing, in such Lender's reasonable opinion, is to increase the cost to that Lender of making or maintaining any loan, advance or financial accommodation or to reduce the income receivable by such Lender in respect of any loan, advance or financial accommodation by an amount which the such Lender deems to be material, then the Agent shall furnish the Borrower with written notice of any event entitling any Lender to compensation hereunder (a "Change Notice"). Thereafter, upon ten (10) days written notice from the Agent, from time to time, to the Borrower (such notice to set out in reasonable detail the facts giving rise to and a summary calculation of such increased cost or reduced income), the Borrower shall pay to the Agent, for the benefit of the subject Lender, that amount which shall compensate the subject Lender for such additional cost or reduction in income accruing after the date of the Change Notice.

2-20. LENDERS' COMMITMENTS.

(a) The obligations of each Lender are several and not joint. No Lender shall have any obligation to make any loan or advance under the Revolving Credit in excess of the lesser of

- (i) that Lender's Commitment Percentage of the subject loan or advance or of Availability; or
(ii) that Lender's Dollar Commitment,

(b) No Lender shall have any liability to the Borrower on account of the failure of any other Lender to provide any loan or advance under the Revolving Credit nor any obligation to make up any shortfall which may be created by such failure.

(c) The Dollar Commitments, Commitment Percentages, and identities of the Lenders (but not the overall Commitment) may be changed, from time to time by the reallocation or assignment of Dollar Commitments and Commitment Percentages amongst the Lenders or with other Persons who determine to become "Lenders", provided, however,

(i) Unless an Event of Default has occurred and is continuing (in which event, no consent of the Borrower is required) any assignment to a Person not then a Lender shall be subject to the prior consent of the Borrower (not to be unreasonably withheld), which consent will be deemed given unless the Borrower provides the Agent with written objection, not more than Five (5) Business Days after the Agent shall have given the Borrower written notice of a proposed assignment.

(ii) Any such assignment or reallocation shall be on a pro-rata basis such that each reallocated or assigned Dollar Commitment to any Person remains the same percentage of the overall Commitment (in terms of dollars) as the reallocated Commitment Percentage is to such Person.

(iii) Unless an Event of Default has occurred and is continuing

(in which event, no consent of the Borrower is required), any appointment of an agent for the Lenders to replace the Agent shall be subject to the prior consent of the Borrower (not to be unreasonably withheld), which consent will be deemed given unless the Borrower provides the Agent with written objection, not more than five (5) Business Days after the Agent shall have given the Borrower written notice of such proposed replacement.

(d) Upon written notice given the Borrower from time to time by the Agent, of any assignment or allocation referenced in Section 2-20(c):

(i) The Borrower shall execute replacements for one or more Revolving Credit Notes to reflect such changed Dollar Commitments, Commitment Percentages, and identities and shall deliver such replacement Revolving Credit Notes to the Agent (which promptly thereafter shall deliver to the Borrower the Revolving Credit Notes so replaced) provided however, in the event that a Revolving Credit Note is to be exchanged following its acceleration or the entry of an order for relief under the Bankruptcy Code with respect to the Borrower, the Agent, in lieu of causing the Borrower to execute one or more new Revolving Credit Notes, may issue the Agent's Certificate confirming the resulting Commitments and Commitment Percentages.

(ii) Such change shall be effective from the effective date specified in such written notice and any Person added as a Lender shall have all rights and privileges of a Lender hereunder thereafter as if such Person had been a signatory to this Agreement and any other Loan Document to which a Lender is a signatory and any person removed as a Lender shall be relieved of any obligations or responsibilities of a Lender hereunder thereafter.

(e) The Borrower recognizes that the Agent's exercise of any discretion accorded to the Agent herein and of its rights, remedies, powers, privileges, and discretions with respect to the Borrower is subject to a certain Agency Agreement amongst the Agent and the Lenders. The provisions of the Agency Agreement relating to voting rights of the Lenders shall be subject to the approval of the Borrower, which approval shall not be unreasonably delayed or withheld. The Borrower acknowledges that the Borrower's approval of the voting rights shall be deemed furnished if the voting rights provisions described in EXHIBIT 2-20 hereto are incorporated in the Agency Agreement.

ARTICLE 3- CONDITIONS PRECEDENT.

As a condition to the effectiveness of this Agreement, the establishment of the Revolving Credit, and the making of the first loan under the Revolving Credit, each of the documents respectively described in Sections 3-1 through and including 3-6, (each in form and substance reasonably satisfactory to the Agent) shall have been delivered to the Agent, and the conditions respectively described in Sections 3-7 through and including 3-11, shall have been satisfied:

3-1. CORPORATE DUE DILIGENCE.

A Certificate of each Obligor's Secretary of the due adoption, continued effectiveness, and setting forth the texts of, each corporate resolution adopted in connection with the establishment of the loan arrangement contemplated by the Loan Documents and attesting to the true signatures of each Person authorized as a signatory to any of the Loan Documents.

3-2. OPINION.

An opinion of counsel to the Obligors in form and substance reasonably satisfactory to the Agent .

3-3. [Intentionally Omitted]

3-4. GUARANTORS.

Each Guarantor shall have (a) executed and delivered to the Agent and the Lenders its guaranty of the Liabilities, and (b) granted the Agent for the ratable benefit of the Lenders, a first lien on all of its assets, and (c) shall have executed such other documents and undertaken such other action as the Agent may have reasonably requested.

3-5. ADDITIONAL DOCUMENTS.

Such additional instruments and documents as the Agent or its counsel reasonably may require or request, including, without limitation an Intercreditor and Subordination Agreement with Winthrop Resources, Inc.

3-6. OFFICERS' CERTIFICATES.

Certificates executed on behalf of the Borrower by the President and the

Chief Financial Officer of the Borrower and stating that the representations and warranties made by the Borrower to the Agent and the Lenders in the Loan Documents are true and complete in all material respects as of the date of such Certificate, and that no event has occurred which is or which, solely with the giving of notice or passage of time (or both) would be an Event of Default.

3-7. REPRESENTATIONS AND WARRANTIES.

Each of the representations made by or on behalf of the Obligors in this Agreement or in any of the other Loan Documents or in any other report, statement, document, or paper provided by or on behalf of the Obligors shall be true and complete in all material respects as of the date as of which such representation or warranty was made.

3-8. Intentionally Omitted.

3-9. ALL FEES AND EXPENSES PAID.

All fees due at or immediately after the first funding under the Revolving Credit and all costs and expenses incurred by the Agent in connection with the establishment of the credit facility contemplated hereby (including the fees and expenses of counsel to the Agent) shall have been paid.

3-10. NO SUSPENSION EVENT.

No Suspension Event shall then exist.

3-11. NO ADVERSE CHANGE.

No event shall have occurred or failed to occur, which occurrence or failure is or could have a materially adverse effect upon the Borrower's financial condition when compared with such financial condition at the fiscal month ended September 30, 2000.

No document shall be deemed delivered to the Agent or any Lender until received and accepted by the Agent at its head offices in Boston, Massachusetts. Under no circumstances will this Agreement take effect until executed and accepted by the Agent at said head office.

ARTICLE 4- GENERAL REPRESENTATIONS, WARRANTIES AND COVENANTS

To induce each Lender to establish the loan arrangement contemplated herein and to make loans and advances and to provide financial accommodations under the Revolving Credit (each of which loans shall be deemed to have been made in reliance thereupon) the Borrower, in addition to all other representations, warranties, and covenants made by the Obligors in any other Loan Document, makes those representations, warranties, and covenants included in this Agreement.

4-1. PAYMENT AND PERFORMANCE OF LIABILITIES. The Borrower shall pay each Liability when due (or when demanded if payable on demand) and shall promptly, punctually, and faithfully perform each other Liability.

4-2. DUE ORGANIZATION - Corporate Authorization - No Conflicts.

(a) The Borrower presently is and shall hereafter remain in good standing as a Delaware corporation and is and shall hereafter remain duly qualified and in good standing in every other State in which, by reason of the nature or location of the Borrower's assets or operation of the Borrower's business, such qualification may be necessary, except where the failure to so qualify would not have a material adverse effect on the Borrower's business, assets or financial condition.

(b) Each Related Entity is listed on EXHIBIT 4-2, annexed hereto. Each Related Entity is and shall hereafter remain in good standing in the State in which incorporated and is and shall hereafter remain duly qualified in which other State in which, by reason of that entity's assets or the operation of such entity's business, such qualification may be necessary, except where the failure to so qualify would not have a material adverse effect on the Related Entity's business, assets or financial condition, provided that, the Borrower may dissolve any Related Entity if

- (i) upon such dissolution, all of such Related Entity's assets are transferred to the Borrower and
- (ii) as a result of such dissolution, the Borrower does not, expressly or by operation of law, assume any liabilities of such Related Entity that would, in accordance with GAAP, be classified as liabilities, whether absolute or contingent, and whether or not they would be reflected on a balance sheet and the notes thereto of the Borrower, unless the Agent shall have consented to the assumption of such liabilities. The Borrower shall provide the Agent with prior written notice of any entity's becoming or ceasing to be a Related Entity.

(c) Each Obligor has all requisite corporate power and authority to execute and deliver all Loan Documents to which such Obligor is a party and has and will hereafter retain all requisite corporate power to perform all Liabilities.

(d) The execution and delivery by each Obligor of each Loan Document to which it is a party; the Obligor's consummation of the transactions contemplated by such Loan Documents (including, without limitation, the creation of security interests by the Obligors as contemplated hereby); each Obligor's performance under those of the Loan Documents to which it is a party; the borrowings hereunder; and the use of the proceeds thereof:

- (i) Have been duly authorized by all necessary corporate action.
- (ii) Do not, and will not, contravene in any material respect any provision of any Requirement of Law or obligation of the Obligors.
- (iii) Will not result in the creation or imposition of, or the obligation to create or impose, any Encumbrance upon any assets of the Obligors pursuant to any Requirement of Law or obligation, except pursuant to the Loan Documents.

(e) The Loan Documents have been duly executed and delivered by Obligors and are the legal, valid and binding obligations of the Obligors, enforceable against the Obligors in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that the availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

(f) The Borrower's respective organizational identification number assigned to it by the State of its incorporation and its respective federal employer identification number is stated on EXHIBIT 4-2, annexed hereto. The Borrower shall not change its State of organization; any organizational identification number assigned to the Borrower by that State; or that Borrower's federal taxpayer identification number.

4-3. TRADE NAMES.

(a) EXHIBIT 4-3, annexed hereto, is a listing of:

- (i) All names under which the Borrower conducted its business within the past five (5) years.
- (ii) All entities and/or persons with whom within the past five (5) years the Borrower consolidated or merged, or from whom within the past five (5) years the Borrower acquired in a single transaction or in a series of related transactions substantially all of such entity's or person's assets.

(b) Except (i) upon not less than fifteen (15) days prior written notice given the Agent, and (ii) in compliance with all other provisions of this Agreement, the Borrower will not undertake or commit to undertake any action such that the results of that action, if undertaken prior to the date of this Agreement, would have been reflected on EXHIBIT 4-3.

4-4. INFRASTRUCTURE.

(a) To the Obligors' knowledge, except as set forth in EXHIBIT 4-4(b), the Obligors own and possess, or have the right to use (and will hereafter own, possess, or have such right to use) all patents, industrial designs, trademarks, trade names, trade styles, brand names, service marks, logos, copyrights, trade secrets, know-how, confidential information, and other intellectual or proprietary property of any third Person necessary for each Obligor's conduct of its business.

(b) To the Obligors' knowledge, the conduct by the Obligors of the Obligors' business does not presently infringe (nor will the Obligors conduct their business in the future so as to infringe) the patents, industrial designs, trademarks, trade names, trade styles, brand names, service marks, logos, copyrights, trade secrets, know-how, confidential information, or other intellectual or proprietary property of any third Person.

4-5. LOCATIONS.

(a) The Collateral, and the books, records, and papers of Borrower pertaining thereto, are kept and maintained solely at the Borrower's chief executive offices at

- (i) 66 B Street, Needham, Massachusetts 02194; and
- (ii) those locations which are listed on EXHIBIT 4-5, annexed hereto, which EXHIBIT includes, with respect to each such location, the name and address of the landlord on the Lease which covers such location (or an indication that the Borrower owns the subject

location) and of all service bureaus with which any such records are maintained.

(b) The Borrower shall not remove any of the Collateral from said chief executive office or those locations listed on EXHIBIT 4-5 except to

- (i) accomplish sales of Inventory in the ordinary course of business;
- (ii) move Inventory from one such location to another such location;
- (iii) utilize such of the Collateral as is removed from such locations in the ordinary course of business (such as motor vehicles).
- (iv) return Inventory to the Borrower's suppliers in the ordinary course of business, consistent with the Borrower's past practices;
- (v) move Inventory to third parties to complete alterations thereon; or
- (vi) move Inventory and other Collateral to a new store or warehouse, provided the Borrower furnishes the Agent with at least ten (10) days prior notice thereof.

(c) The Obligors will not execute, alter, modify, or amend any Lease other than in the ordinary course of business and not otherwise in violation of this Agreement; provided that

- (i) no such amendment shall result in any Obligor's granting a landlord an Encumbrance on any of the Obligors' assets; and
- (ii) the Borrower shall not execute, alter, modify or amend any Lease, whether or not in the ordinary course of business, without first furnishing the Agent with ten (10) days prior notice thereof (provided that no such notice need be furnished if the sole purpose of the amendment is to extend the term of the Lease) and using its best efforts to obtain a landlord's waiver in favor of the Agent, in form reasonably satisfactory to the Agent.

(d) None of the Obligors shall cease the conduct of business from any of their present or future locations without first furnishing the Agent with at least ten (10) days prior notice thereof.

(e) Except as otherwise disclosed pursuant to, or permitted by, this Section 4-5, no tangible personal property of any Obligor of more than de minimis value is in the care or custody of any third party or stored or entrusted with a bailee or other third party and no property of more than de minimis value shall hereafter be placed under such care, custody, storage, or entrustment.

4-6. TITLE TO ASSETS.

(a) The Borrower is, and shall hereafter remain, the owner of the Collateral free and clear of all Encumbrances with the exceptions of the following (the "Permitted Encumbrances"):

- (i) Encumbrances in favor of the Agent.
- (ii) Those Encumbrances (if any) listed on EXHIBIT 4-6, annexed hereto.
- (iii) Encumbrances for taxes, assessments or other governmental charges which are being contested in good faith by appropriate proceedings, and for which adequate reserves are being maintained, as to which no Encumbrance which may have priority over the Agent's Encumbrance shall have arisen.
- (iv) Statutory liens of carriers, warehousemen, mechanics, materialmen, repairmen, landlords, and others arising in the ordinary course of business for sums not overdue, or which are being contested in good faith by appropriate proceedings.
- (v) Liens incurred or deposits or pledges made in connection with worker's compensation, health or unemployment insurance, social security laws, or similar legislation or in connection with or to secure the payment or performance of bids, tenders, sale agreements, leases, trade agreements, statutory obligations or surety bonds, or other liens incidental to the ordinary conduct of its business or the ownership of its property and assets, which are not incurred in connection with the borrowings of money; or judgment liens in proceedings which are being appealed and with respect to which there has been a stay of execution; provided that all of the foregoing do not in the aggregate materially adversely affect the value of its property or assets or impair the use thereof in the operation of the Borrower's business.
- (vi) Encumbrances on property hereafter acquired (either in connection with purchase money mortgages, rental purchase agreements, including capital leases, or conditional sale or other title retention agreements), which are restricted to the property so acquired and do not secure Indebtedness exceeding the fair value (at the time of acquisition) thereof.
- (vii) Easements, rights of way, restrictions, minor defects,

encroachments or irregularities in title and other similar charges or encumbrances not interfering in any material respect with the ordinary conduct of the business of the Borrower or any of its Related Entities.

(viii) License agreements pursuant to which the Borrower licenses any of its trademarks, trade names, service marks, trade dress, or other intellectual property.

(b) The Borrower does not and shall not have possession of any property on consignment to the Borrower.

(c) The Borrower shall not acquire or obtain the right to use any Equipment, the acquisition or right to use of which Equipment is otherwise permitted by this Agreement, in which Equipment any third party has an interest, except for:

- (i) Equipment which is used in the conduct of the Borrower's business.
- (ii) Equipment, the acquisition or right to use of which has been consented to by the Agent, which consent may be conditioned upon the Agent's receipt of such agreement with the third party which has an interest in such Equipment as is satisfactory to the Agent.

4-7. INDEBTEDNESS. The Obligors do not and shall not hereafter have any Indebtedness with the exceptions of:

- (a) Any Indebtedness to the Lenders .
- (b) The Indebtedness (if any) listed on EXHIBIT 4-7, annexed hereto.
- (c) Any Indebtedness secured by Permitted Encumbrances.

4-8. INSURANCE POLICIES.

(a) EXHIBIT 4-8, annexed hereto, is a schedule of all insurance policies owned by the Obligors or under which any of the Obligors is the named insured. To the Obligors' knowledge, each of such policies is in full force and effect. To the Obligors' knowledge, neither the issuer of any such policy nor any Obligor is in default or violation of any such policy.

(b) The Obligors shall have and maintain at all times insurance covering such risks, in such amounts, containing such terms, in such form, for such periods, and written by such companies as may be reasonably satisfactory to the Agent . The coverage reflected on EXHIBIT 4-8 presently satisfies the foregoing requirements, it being recognized by the Borrower, however, that such requirements may change hereafter to reflect changing circumstances. All insurance carried by the Obligors shall provide for a minimum of Ten (10) days' written notice of cancellation to the Agent due to non-payment of premiums, and Thirty (30) days' written notice of cancellation to the Agent in all other circumstances, and all such insurance which covers the Collateral shall include an endorsement in favor of the Agent, which endorsement shall provide that the insurance, to the extent of the Agent's interest therein, shall not be impaired or invalidated, in whole or in part, by reason of any act or neglect of any Obligor or by the failure of any Obligor to comply with any warranty or condition of the policy. In the event of the failure by the Obligors to maintain insurance as required herein, the Agent , at its option, may obtain such insurance, provided, however, the Agent's obtaining of such insurance shall not constitute a cure or waiver of any Event of Default occasioned by the Obligors' failure to have maintained such insurance. The Borrower shall furnish to the Agent certificates or other evidence satisfactory to the Agent regarding compliance by the Obligors with the foregoing insurance provisions.

(c) The Borrower shall advise the Agent of each claim in excess of \$500,000.00 made by the Borrower under any policy of insurance which covers the Collateral. Following the acceleration of the time for payment of the Liabilities, the Borrower will permit the Agent , at the Agent's option in each instance, to the exclusion of the Borrower, to conduct the adjustment of all claims regardless of the amount thereof. The Borrower hereby appoints the Agent as the Borrower's attorney in fact to obtain, adjust, settle, and cancel any insurance described in this section and to endorse in favor of the Agent any and all drafts and other instruments with respect to such insurance. This appointment, being coupled with an interest, is irrevocable until this Agreement is terminated by a written instrument executed by a duly authorized officer of the Agent . The Agent shall not be liable on account of any exercise pursuant to said power except for any exercise with gross negligence or in actual willful misconduct and bad faith. The Agent may apply any proceeds of such insurance against the Liabilities, whether or not such have matured, in such order of application as the Agent may determine.

4-9. LICENSES. Each license, distributorship, franchise, and similar

agreement issued to, or to which any Obligor is a party is in full force and effect. To the Obligors' knowledge, no party to any such license or agreement is in default or violation thereof. The Obligors have not received any notice of cancellation of any such license or agreement.

4-10. LEASES. EXHIBIT 4-10, annexed hereto, is a schedule of all presently effective Capital Leases. EXHIBIT 4-5 includes a list of the locations of properties that are the subject of all other presently effective Leases. To the Obligors' knowledge, each of such Leases and Capital Leases is in full force and effect. To the Obligors' knowledge, no party to any such Lease or Capital Lease is in default or violation of any such Lease or Capital Lease, and the Obligors have not received any notice of cancellation of any such Lease or Capital Lease. The Obligors hereby authorize the Agent at any time and from time to time after the occurrence, and during the continuance, of an Event of Default to contact any of the Obligor's landlords in order to confirm the Obligor's continued compliance with the terms and conditions of the Lease(s) between such Obligor and that landlord and to discuss such issues, concerning the Obligor's occupancy under such Lease(s), as the Agent may determine.

4-11. REQUIREMENTS OF LAW. The Obligors are in compliance with, and shall hereafter comply with and use their assets in compliance with, all Requirements of Law, except where such non-compliance would not have a material adverse effect on the Borrower, its business or assets. The Obligors have not received any notice of any violation of any Requirement of Law (whether or not such violation is material), which violation has not been cured or otherwise remedied.

4-12. MAINTAIN PROPERTIES. The Borrower shall:

(a) Keep the Collateral in good order and repair (ordinary reasonable wear and tear and insured casualty excepted).

(b) Not suffer or cause the waste or destruction of any material part of the Collateral.

(c) Not use any of the Collateral in violation of any policy of insurance thereon.

(d) Not sell, lease, or otherwise dispose of any of the Collateral, other than the following:

(i) The sale of Inventory in compliance with this Agreement.

(ii) The disposal of Equipment which is obsolete, worn out, or damaged beyond repair, which Equipment is replaced to the extent necessary to preserve or improve the operating efficiency of the Borrower.

(iii) The turning over to the Agent of all Receipts as provided herein.

(iv) The sale, liquidation or other disposition of Inventory at any locations from which the Borrower determines to cease the conduct of its business, provided that such sales, liquidations, or other dispositions shall be on terms reasonably satisfactory to the Agent (whose consent shall not be unreasonably delayed or withheld), and further provided that notwithstanding the Agent's furnishing of any such consent, the Agent may, in the exercise of its reasonable discretion, impose Inventory Reserves, as a result of the occurrence of any such sale, liquidation, or disposition.

4-13. PAY TAXES.

(a) Except as described EXHIBIT 4-13, the Borrower has filed all material tax returns and reports (federal, state and local) required to be filed by it, and paid all material taxes, assessments and other governmental charges imposed upon it and its property and assets, other than (i) such as are presently payable without interest or penalty, (ii) such as are being contested in good faith by appropriate proceedings, and for which adequate reserves are being maintained in accordance with GAAP, or (iii) with respect to local taxes, such local taxes payable by the Borrower which (A) the chief financial officer of the Borrower has no knowledge of the Borrower's obligation to pay and (B) the failure to pay does not have a material adverse effect on the business, property, assets or condition, financial or otherwise, of the Borrower. Except as described on EXHIBIT 4-13, the federal income tax returns of the Borrower have not been audited by the Internal Revenue Service within the last three years, all prior audits have been closed, and there are no unpaid assessments, penalties or other charges arising from such prior audits. Except as described on EXHIBIT 4-13, no agreement is extant which waives or extends any statute of limitations applicable to the right of the Internal Revenue Service or any state taxing authority to assert a deficiency or make any other claim for or in respect to federal or state taxes. No issue has been raised in any examination which, by application of similar principles, reasonably could be expected to result in the assertion of a deficiency for any fiscal year open for examination, assessment, or claim by the Internal Revenue Service or any state taxing authority.

(b) Except as set forth in Section 4-6(a)(iii) hereof, the Borrower

hereafter shall: pay, as they become due and payable, all taxes and unemployment contributions and other charges of any kind or nature levied, assessed or claimed against the Obligors or the Collateral by any person or entity whose claim could result in an Encumbrance upon any asset of any Obligor or by any governmental authority; properly exercise any trust responsibilities imposed upon the Obligors by reason of withholding from employees' pay or by reason of any Obligor's receipt of sales tax or other funds for the account of any third party; timely make all contributions and other payments as may be required pursuant to any Employee Benefit Plan now or hereafter established by any Obligor; and timely file all tax and other returns and other reports with each governmental authority to whom any Obligor is obligated to so file.

(c) At its option, after the occurrence, and during the continuance, of an Event of Default, the Agent may, but shall not be obligated to, pay any taxes, unemployment contributions, and any and all other charges levied or assessed upon any Obligor or the Collateral by any person or entity or governmental authority, and make any contributions or other payments on account of any Obligor's Employee Benefit Plan as the Agent, in the Agent's discretion, may deem necessary or desirable, to protect, maintain, preserve, collect, or realize upon any or all of the Collateral or the value thereof or any right or remedy pertaining thereto, provided, however, the Agent's making of any such payment shall not constitute a cure or waiver of any Event of Default occasioned by the Borrower's failure to have made such payment.

4-14. NO MARGIN STOCK.

The Obligors are not engaged in the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulations G,U,T, and X of the Board of Governors of the Federal Reserve System of the United States). Except as permitted elsewhere in this Agreement, no part of the proceeds of any borrowing hereunder will be used at any time to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

4-15. ERISA. Neither the Borrower nor any ERISA Affiliate:

(a) Is in violation of or hereafter shall violate, or has failed or hereafter shall fail to be in material compliance with, the Borrower's Employee Benefit Plan.

(b) Has failed or hereafter shall fail timely to file all reports and filings required by ERISA to be filed by the Borrower.

(c) Has engaged or hereafter shall engage in any "prohibited transactions" or "reportable events" (respectively as described in ERISA).

(d) Has engaged or hereafter shall engage in, or commit, any act such that a tax or penalty could be imposed upon the Borrower on account thereof pursuant to ERISA.

(e) Has accumulated or hereafter shall accumulate any material funding deficiency within the meaning of ERISA.

(f) Has terminated or hereafter shall terminate any Employee Benefit Plan such that a lien could be asserted against any assets of the Borrower on account thereof pursuant to ERISA.

(g) Is or hereafter shall be a member of, contribute to, or have any obligation under any Employee Benefit Plan which is a multiemployer plan within the meaning of Section 4001(a) of ERISA.

4-16. HAZARDOUS MATERIALS.

(a) The Obligors have never:

(i) been legally responsible for any release or threat of release of any Hazardous Material; or

(ii) received notification of any release or threat of release of any Hazardous Material from any site or vessel occupied or operated by any Obligor and/or of the incurrence of any expense or loss in connection with the assessment, containment, or removal of any release or threat of release of any Hazardous Material from any such site or vessel.

(b) The Obligors shall:

(i) dispose of any Hazardous Material only in compliance with all Environmental Laws in all material respects; and

(ii) not store on any site or vessel occupied or operated by any Obligor and not transport or arrange for the transport of any Hazardous Material, except if such storage or transport is in the ordinary course of such Obligor's business and is in compliance with all Environmental Laws in all material respects.

(c) The Borrower shall provide the Agent with written notice upon the Borrower's obtaining knowledge of any incurrence of any expense or loss by any governmental authority or other Person in connection with the assessment, containment, or removal of any Hazardous Material, for which expense or loss any Obligor may be liable.

4-17. LITIGATION. Except as described in EXHIBIT 4-17, annexed hereto, there is not presently pending or threatened by or against any Obligor any suit, action, proceeding, or investigation which, if determined adversely to such Obligor, would have a material adverse effect upon the Obligors' financial condition or ability to conduct their business as such business is presently conducted or is contemplated to be conducted in the foreseeable future.

4-18. DIVIDENDS OR INVESTMENTS. The Obligors shall not:

(a) Pay any cash dividend or make any other distribution in respect of any class of the Borrower's capital stock.

(b) Redeem, retire, purchase, or acquire any of the Borrower's capital stock involving the expenditure of cash after the date of this Agreement at any time that a Suspension Event has occurred and is continuing.

(c) Invest in or purchase any stock or securities or rights to purchase any such stock or securities, of any corporation or other entity, other than (i) Permitted Acquisitions, and (ii) other Eligible Investments provided that no Revolving Credit Loans are then outstanding and each such Eligible Investment is pledged to the Agent to secure the Liabilities).

(d) Except as permitted pursuant to Section 4-19 hereof, merge or consolidate or be merged or consolidated with or into any other corporation or other entity.

(e) Except as permitted pursuant to Section 4-19 hereof, consolidate any of the Borrower's operations with those of any other corporation or other entity.

(f) Organize or create any Related Entity, other than in connection with a Permitted Acquisition and in compliance with the provisions of Section 4-19(e) hereof.

(g) Subordinate any debts or obligations owed to the Borrower by any third party to any other debts owed by such third party to any other Person other than subordination, attornment, and non-disturbance agreements required pursuant to any Leases.

(h) Except as permitted pursuant to Section 4-19 hereof, acquire any assets other than in the ordinary course and conduct of the Borrower's business as conducted at the execution of this Agreement

4-19. PERMITTED ACQUISITIONS. The Borrower may make Permitted Acquisitions without the consent of the Agent or the Lenders; provided that:

(a) Not less than Fifteen (15) days prior written notice (with reasonable particularity as to the facts and circumstances in respect of which such notice is being given) of such Permitted Acquisition is given to the Agent.

(b) The aggregate purchase price (exclusive of the portion of the purchase price paid for with capital stock of the Borrower) of all such Permitted Acquisitions undertaken from and after October 31, 1998 is not greater than Nine Million Dollars (\$9,000,000.00).

(c) The aggregate consideration paid in cash for all such Permitted Acquisitions does not exceed the difference between Five Million Dollars (\$5,000,000.00) and the amount of cash expended by the Borrower after the date of this Agreement pursuant to Section 4-18(b) hereof (provided that the aggregate consideration paid in cash for Permitted Acquisitions in any twelve month period after the date of this Agreement shall not exceed the difference between (i) \$2,500,000.00 and (ii) the amount of cash expended by the Borrower during such twelve month period pursuant to Section 4-18(b)).

(d) No Event of Default then exists or would result from any such Acquisition.

(e) With respect, to and in the event of any Permitted Acquisition which consists of, or results in the creation of, a Subsidiary, Agent shall be provided with such Subsidiary's Unlimited Guaranty (in form and substance satisfactory to the Agent), which Unlimited Guaranty shall be secured by first perfected security interests and liens on substantially all of the assets of such Subsidiary, subject to the same limitations set forth in Section 8-1 hereof and subject to Permitted Encumbrances.

(f) The Agent and the Lenders shall have no obligation to include any Inventory acquired in such Permitted Acquisition (or Inventory of a similar type and nature acquired after the Permitted Acquisition) as "Acceptable Inventory".

4-20. LOANS. The Obligors shall not make any loans or advances to, nor acquire the Indebtedness of, any Person, provided, however, the foregoing does not prohibit any of the following:

(a) Advance payments made to the Borrower's suppliers in the ordinary course.

(b) Advances to the Borrower's officers, employees, and salespersons with respect to reasonable expenses to be incurred by such officers, employees, and salespersons for the benefit of the Borrower, which expenses are properly substantiated by the person seeking such advance and properly reimbursable by the Borrower.

(c) Loans to the Borrower's officers and employees not exceeding \$400,000 in the aggregate at any one time outstanding, provided that each

such loan is for a term of not more than 90 days from the date on which it is made and is paid within such 90-day period; provided that, all amounts due on account of loans permitted under this clause

(c) shall constitute Collateral and shall be pledged to the Agent for the ratable benefit of the Lenders; and

(d) Advances to contractors for the construction or renovation of stores, buildings or improvements for use in the business of the Borrower.

4-21. Intentionally Omitted.

4-22. RESTRICTIONS ON SALE OF COLLATERAL; LICENSE AGREEMENTS. To the Obligors' knowledge, the Obligors are not, and shall not become, party to any agreement or understanding which limits, impairs, or otherwise restricts the ability of the Agent to freely sell and dispose of any of the Collateral (including, without limitation, any repurchase agreements, rights of first refusal or other agreements which limit or condition the time, manner, place or price for the sale or disposition of the Collateral), other than certain Trademark License Agreements with Levi Strauss & Co. dated November 1, 1991 and November 15, 1996. The Borrower shall not effect or permit any material change or amendment to the terms of such License Agreements which would impose further restrictions to the Agent's disposition of the Collateral or would shorten the term of such License Agreements, other than as contemplated in the Amendment and Distribution Agreement dated as of October 31, 1988 by and among Designs JV Corp., LDJV, Inc. and The Designs/OLS Partnership.

4-23. PROTECTION OF ASSETS. The Agent, in the Agent's discretion, and from time to time, may discharge any tax or Encumbrance on any of the Collateral (other than Permitted Encumbrances unless an Event of Default has occurred and is continuing), or take any other action that the Lender may deem necessary or desirable to repair, insure, maintain, preserve, collect, or realize upon any of the Collateral. The Agent shall not have any obligation to undertake any of the foregoing and shall have no liability on account of any action so undertaken except where there is a specific finding in a judicial proceeding (in which the Agent has had an opportunity to be heard), from which finding no further appeal is available, that the Agent had acted in actual bad faith or in a grossly negligent manner. The Borrower shall pay to the Agent, on demand, or the Agent, in its discretion, may add to the Loan Account, all amounts paid or incurred by the Lender pursuant to this section. The obligation of the Borrower to pay such amounts is a Liability.

4-24. LINE OF BUSINESS. The Obligors shall not engage in any business other than the business in which they are currently engaged or a business reasonably related thereto provided that the foregoing shall not prohibit the expansion or contraction of the Borrower's business so long as the Borrower is still engaged solely in the retail sale of apparel, footwear and related accessories and other activities, ancillary, incidental or necessary thereto.

4-25. AFFILIATE TRANSACTIONS. The Obligors shall not make any payment, nor give any value to any Related Entity except for goods and services actually purchased by the Obligors from, or sold by the Obligors to, such Related Entity for a price and on terms which shall

(a) be competitive and fully deductible as an "ordinary and necessary business expense" and/or fully depreciable under the Internal Revenue Code of 1986 and the Treasury Regulations, each as amended; and

(b) not be less favorable than those which would have been charged in an arms length transaction.

4-26. ADDITIONAL ASSURANCES.

(a) The Borrower shall execute and deliver to the Agent such instruments, documents, and papers, and shall do all such things from time to time hereafter as the Agent may reasonably request to carry into effect the provisions and intent of this Agreement; to protect and perfect the Agent's security interests in the Collateral; and to comply with all applicable statutes and laws, and facilitate the collection of the Receivables Collateral. The Borrower shall execute all such instruments as may be required by the Agent with respect to the recordation and/or perfection of the security interests created herein.

(b) The Borrower hereby designates the Agent as and for the Borrower's true and lawful attorney, with full power of substitution, to sign and file any financing statements in order to perfect or protect the Agent's security and other collateral interests in the Collateral.

(c) A carbon, photographic, or other reproduction of this Agreement or of any financing statement or other instrument executed pursuant to this Section 4-26 shall be sufficient for filing to perfect the security interests granted herein.

4-27. ADEQUACY OF DISCLOSURE.

(a) All financial statements furnished to the Agent and each Lender by the Borrower have been prepared in accordance with GAAP consistently applied and present fairly the condition of the Borrower at the date(s) thereof and the results of operations and cash flows for the period(s)

covered. There has been no change in the financial condition, results of operations, or cash flows of the Borrower since the date(s) of such financial statements, other than changes in the ordinary course of business, which changes have not been materially adverse, either singularly or in the aggregate.

(b) The Borrower does not have any contingent obligations or obligation under any Lease or Capital Lease which is not noted in the Borrower's annual certified financial statements and Form 10K and 10Q reports furnished to the Agent and each Lender prior to the execution of this Agreement.

(c) No document, instrument, agreement, or paper now or hereafter given the Agent by or on behalf of the Borrower or any guarantor of the Liabilities in connection with the execution of this Agreement by the Agent, taken as a whole, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements therein not misleading.

4-28. OTHER COVENANTS. The Borrower shall not indirectly do or cause to be done any act which, if done directly by the Borrower, would breach any covenant contained in this Agreement.

ARTICLE 5- REPORTING REQUIREMENTS / FINANCIAL COVENANTS.

5-1. MAINTAIN RECORDS. The Borrower shall:

(a) At all times, keep proper books of account, in which full, true, and accurate entries shall be made of all of the Borrower's transactions, all in accordance with GAAP applied consistently with prior periods to fairly reflect the financial condition of the Borrower at the close of, and its results of operations for, the periods in question.

(b) Timely provide the Agent with those financial reports, statements, and schedules required by this Article 5 or otherwise, each of which reports, statements and schedules shall be prepared, to the extent applicable, in accordance with GAAP applied consistently with prior periods to fairly reflect the financial condition of the Borrower at the close of, and its results of operations for, the period(s) covered therein.

(c) At all times, keep accurate current records of the Collateral including, without limitation, accurate current stock, cost, and sales records of its Inventory, accurately and sufficiently itemizing and describing the kinds, types, and quantities of Inventory and the cost and selling prices thereof.

(d) At all times, retain independent certified public accountants who are reasonably satisfactory to the Agent and instruct such accountants to fully cooperate with, and be available to, the Agent to discuss the Borrower's financial performance, financial condition, operating results, controls, and such other matters, within the scope of the retention of such accountants, as may be raised by the Agent.

(e) Not change the Borrower's fiscal year.

(f) Not change the Borrower's taxpayer identification number.

5-2. ACCESS TO RECORDS.

(a) Upon reasonable prior notice from the Agent to the Borrower, the Borrower shall accord the Agent and the Agent's representatives with access from time to time as the Agent and such representatives may require to all properties owned by or over which the Borrower has control. The Agent and the Agent's representatives shall have the right, and the Borrower will permit the Agent and such representatives from time to time as the Agent and such representatives may request, to examine, inspect, copy, and make extracts from any and all of the Borrower's books, records, electronically stored data, papers, and files. The Borrower shall make all of the Borrower's copying facilities available to the Agent.

(b) The Borrower hereby authorizes the Agent and the Agent's representatives to:

(i) Except to the extent prohibited by the Borrower's contractual obligations, inspect, copy, duplicate, review, cause to be reduced to hard copy, run off, draw off, and otherwise use any and all computer or electronically stored information or data which relates to the Borrower, or any service bureau, contractor, accountant, or other person, and directs any such service bureau, contractor, accountant, or other person fully to cooperate with the Agent and the Agent's representatives with respect thereto.

(ii) Verify at any time the Collateral or any portion thereof, including verification with Account Debtors, and/or with the Borrower's computer billing companies, collection agencies, and accountants and to sign the name of the Borrower on any notice to the Borrower's Account Debtors or verification of the Collateral.

5-3. NOTICE TO AGENT.

(a) The Borrower shall provide the Agent with written notice promptly upon the occurrence of any of the following events, which written notice

shall be with reasonable particularity as to the facts and circumstances in respect of which such notice is being given:

- (i) Any change in the Borrower's officers.
- (ii) The completion of any physical count of the Borrower's Inventory (together with a copy of the results thereof certified by the Borrower's chief financial officer).
- (iii) Any ceasing of the Borrower's making of payment, in the ordinary course, to any of its creditors, on account of obligations aggregating in excess of \$180,000.00 (including the ceasing of the making of such payments on account of a dispute with the subject creditor).
- (iv) Any failure by the Borrower to pay rent at any of the Borrower's locations which rent in the aggregate exceeds \$180,000.00, which failure continues for more than Ten (10) days following the day on which such rent first came due.
- (v) Any material change in the business, operations, or financial affairs of the Borrower.
- (vi) The Borrower's obtaining knowledge of any fact which has, or in the foreseeable future, is likely to have, a material adverse effect on the financial condition of the Borrower or any Guarantor.
- (vii) The occurrence of any Suspension Event.
- (viii) Any intention on the part of the Borrower to discharge the Borrower's present independent accountants or any withdrawal or resignation by such independent accountants from their acting in such capacity (as to which, see Subsection 5-1(d)).
- (ix) Any litigation which, if determined adversely to the Borrower, is likely to have a material adverse effect on the financial condition of the Borrower.

(b) The Borrower shall:

- (i) Provide the Agent, when so distributed, with copies of any materials distributed to the shareholders of the Borrower (such shareholders).
- (ii) Provide the Agent:
 - (A) When filed, copies of all filings with the SEC.
 - (B) When received, copies of all correspondence from the SEC, asserting that the Borrower is in violation of any Requirement of Law.
- (iii) Add the Agent as an addressee on all mailing lists maintained by or for the Borrower.
- (iv) At the request of the Agent, from time to time, provide the Agent with copies of all advertising (including copies of all print advertising and duplicate tapes of all video and radio advertising).
- (v) Provide the Agent, when received by the Borrower, with a copy of any management letter or similar communications from any accountant of the Borrower.

5-4. BORROWING BASE CERTIFICATE. The Borrower shall provide the Agent by 5:00 PM, daily, (unless no Revolving Credit Loans are outstanding, in which event weekly, by the close of business on Monday of each week) with a Borrowing Base Certificate (in the form of EXHIBIT 5-4 annexed hereto, as such form may be revised from time to time by the Agent). Such Certificate may be sent to the Agent by facsimile transmission, provided that the original thereof is forwarded to the Agent on the date of such transmission. It is understood that in furnishing the Borrowing Base Certificate to the Agent, the Borrower will update Inventory values on a weekly basis (at a minimum).

5-5. WEEKLY REPORTS. If any Revolving Credit Loans are outstanding, or if the Stated Amount of outstanding L/Cs exceed \$3,000,000.00, weekly, on Wednesday of each week (as of the then immediately preceding Saturday), the Borrower shall provide the Agent with a sales audit report (in such form as may be reasonably specified from time to time by the Agent). Such report may be sent to the Agent by facsimile transmission, provided that the original thereof is forwarded to the Agent on the date of such transmission.

5-6. MONTHLY REPORTS.

(a) Monthly, the Borrower shall provide the Agent with the following (each in such form as the Agent from time to time may specify):

(i) Within Fifteen (15) days of the end of the previous month:

- (A) A "Stock Ledger Inventory Report" by department for each division and a Certificate by department for each division (signed on behalf of the Borrower by the Borrower's President

or Chief Financial Officer) concerning the Borrower's Inventory.

(B) An aging of the Borrower's Inventory.

(ii) Within Thirty (30) days of the end of the previous month:

(A) Reconciliations of the above described Report and inventory Certificate (Section 5-6(a)(i)(A)) to Availability and to the general ledger as of the end of the subject month.

(B) A gross margin reconciliation.

(C) A schedule of purchases from the Borrower's ten largest vendors (in terms of year to date purchases), which schedule shall be in such form as may be satisfactory to the Agent and shall include year to date cumulative purchases and an aging of payables to each such vendor.

(D) An aging of the Borrower's accounts payable.

(E) A store activity report.

(F) An internally prepared consolidated and consolidating financial statement of the Obligor's financial condition the results of its operations for, the period ending with the end of the subject month, which financial statement shall include, at a minimum, a balance sheet, income statement (on a store specific and on a "consolidated" basis), cash flow and comparison of same store sales for the corresponding month of the then immediately previous year, as well as to the Business Plan.

(G) The following portions of the Borrower's monthly financial closing package:

(i) Executive Summary/Press releases.

(ii) Monthly and year to date sales reporting package.

(iii) A comparison of actual sales to the prior year's sales and to the Borrower's projections for the subject month and for the year to date.

(iv) A Gross Margin analysis by segment for the subject month and fiscal quarter to date.

(v) An Inventory Reconciliation of the Borrower's retail stock ledger to the Borrower's general ledger.

(vi) A Shrink analysis and accruals by division.

(b) For purposes of Section 5-6(a)(i), above, the first "previous month" in respect of which the items required by that Section shall be provided shall be the fiscal month ended April, 1998 and for purposes of Section 5-6(a)(ii), above, the first "previous month" in respect of which the items required by that Section shall be provided shall be the fiscal month ended April, 1998.

5-7. QUARTERLY REPORTS. Quarterly, within Fifty (50) days following the end of each of the Borrower's fiscal quarters (except for the last fiscal quarter of each fiscal year), the Borrower shall provide the Agent with an original counterpart of a management prepared consolidated and consolidating financial statement of the Borrower and its Subsidiaries for the period from the beginning of the Borrower's then current fiscal year through the end of the subject quarter, with comparative information for the same period of the previous fiscal year, which statement shall include, at a minimum, a balance sheet, income statement (on a store specific and on a "consolidated" basis), statement of changes in shareholders' equity, and cash flows and comparisons for the corresponding quarter of the then immediately previous year, as well as to the Business Plan, (ii) the Borrower's Form 10-Q report filed with the SEC.

5-8. ANNUAL REPORTS.

(a) Annually, within ninety-five (95) days following the end of the Borrower's fiscal year, the Borrower shall furnish the Agent with

(i) an original signed counterpart of the Borrower's annual consolidated financial statement, which statement shall bear the unqualified opinion of, the Borrower's independent certified public accountants (i.e. said statement shall be "certified" by such accountants). Such annual statement shall include, at a minimum (with comparative information for the then prior fiscal year) a balance sheet, income statement, statement of changes in shareholders' equity, and cash flows, and

(ii) the Borrower's Form 10-K report filed with the SEC.

(b) No later than the earlier of Fifteen (15) days prior to the end of each of the Borrower's fiscal years or the date on which such accountants commence their work on the audit of the Borrower's annual financial statement, the Borrower shall give written notice to such accountants (with a copy of such notice, when sent, to the Agent) that:

- (i) Such annual financial statement will be delivered by the Borrower to the Agent (for subsequent distribution to each Lender).
- (ii) It is the intention of the Borrower, in its engagement of such accountants, to satisfy the financial reporting requirements set forth in this Article 5.
- (iii) The Agent (and each Lender) will rely thereon with respect to the administration of, and transactions under, the credit facility contemplated by this Agreement.

(c) Each annual statement shall be accompanied by such accountant's certificate indicating that, in the preparation of such annual statement, such accountants did not conclude that any Suspension Event had occurred during the subject fiscal year as a result of the Borrower's breach of the financial performance covenants set forth on EXHIBIT 5-13(a) hereto (or if one or more had occurred, the facts and circumstances thereof).

5-9. APPLICABLE TO MONTHLY, QUARTERLY AND ANNUAL REPORTS. All financial reports furnished by the Borrower under Sections 5-6, 5-7, and 5-8 hereof shall be prepared on the following basis:

- (a) The Borrower and its Subsidiaries on a consolidated basis; and
- (b) The Borrower and its Subsidiaries on a consolidated basis.

5-10. OFFICERS' CERTIFICATES. The Borrower shall cause the Borrower's President and Chief Financial Officer respectively to provide such Person's Certificate on behalf of the Borrower with those monthly, quarterly, and annual statements to be furnished pursuant to this Agreement, which Certificate shall:

(a) Indicate that the subject statement was prepared in accordance with GAAP consistently applied and presents fairly the financial condition of the Obligors at the close of, and the results of their respective operations and cash flows for, the period(s) covered, subject, however to the following:

- (i) usual year end adjustments and footnotes (this exception shall not be included in the Certificate which accompanies such annual statement).
- (ii) Material Accounting Changes (in which event, such Certificate shall include a schedule (in reasonable detail) of the effect of each such Material Accounting Change) not previously specifically taken into account in the determination of the financial performance covenant imposed pursuant to Section 5-13.

(b) Indicate either that during the relevant period

- (i) no Suspension Event has occurred or
- (ii) if such an event has occurred, its nature (in reasonable detail) and the steps (if any) being taken or contemplated by the Borrower to be taken on account thereof.

(c) Include calculations concerning the Borrower's compliance (or failure to comply) at the date of the subject statement with each of the financial performance covenants included in Section 5-13 hereof.

5-11. INVENTORIES, APPRAISALS, AND AUDITS.

(a) The Agent and each Lender, at the expense of the Borrower, may participate in and/or observe each physical count and/or inventory of so much of the Collateral as consists of Inventory which is undertaken on behalf of the Borrower.

(b) Upon the Agent's request from time to time, the Borrower shall obtain (in all events, at the Borrower's expense) physical counts and/or inventories of the Collateral, conducted by such inventory takers as are satisfactory to the Agent and following such methodology as may be required by the Agent, each of which physical counts and/or inventories shall be observed by the Borrower's accountants. The Agent contemplates requiring the Borrower to conduct one such count and/or inventory for each of the Borrower's locations during each Twelve (12) month period during which this Agreement is in effect. The Borrower shall promptly furnish the Agent with copies of the results and adjusting entries for each such count or inventory. In the Agent's discretion, after the occurrence of an Event of Default, the Agent may undertake or cause the Borrower to undertake additional such counts or inventories during any such period.

(c) Upon the Agent's request from time to time, the Borrower shall permit the Agent to obtain appraisals (in all events, at the Borrower's expense) conducted by such appraisers as are satisfactory to the Agent.

(d) The Agent contemplates conducting up to Four (4) commercial finance audits (in each event, at the Borrower's expense) of the Borrower's books and records during any Twelve (12) month period during which this Agreement is in effect, but in its discretion, may undertake additional such audits during such period.

(e) The Agent from time to time (in all events, at the Borrower's expense) may undertake "mystery shopping" (so-called) visits to all or any of the Borrower's business premises. The Agent shall provide the Borrower with a copy of any non-company confidential results of such mystery shopping.

(f) The maximum aggregate cost for the following which the Agent conducts or causes to be conducted in any Twelve (12) month period for which the Borrower shall reimburse the Agent shall not exceed the aggregate of following, it being understood, however, that (x) the maxima are subject to Borrower's having made available, as appropriate, upon reasonable prior notice and during normal business hours, its facilities, financial information, and personnel to facilitate completion in the ordinary course of the following and (y) no Event of Default having occurred and continuing (and that if either (x) or (y) is not fulfilled, there shall not be any such limitation on the aggregate of such costs):

- (i) Appraisals pursuant to Section 5-11(c): \$65,000.00 .
- (ii) Commercial finance audits pursuant to Section 5-11(d):
\$20,000.00, plus travel expenses.
- (iii) Mystery Shopping pursuant to Section 5-11(e): \$1,000.00

5-12. ADDITIONAL FINANCIAL INFORMATION.

(a) In addition to all other information required to be provided pursuant to this Article 5, the Borrower promptly shall provide the Agent, with such other and additional information concerning the Obligors, the Collateral, the operation of the Obligors' business, and the Obligors' financial condition, including original counterparts of financial reports and statements, as the Agent may from time to time reasonably request from the Borrower.

(b) The Borrower may provide the Agent, from time to time hereafter, with updated projections of the Obligors' anticipated performance and operating results.

(c) In all events, the Borrower, no sooner than Ninety (90) nor later than Sixty (60) days prior to the end of each of the Borrower's fiscal years, shall furnish the Agent with an updated and extended projection for the Obligors which shall go out at least through the end of the next fiscal year.

(d) The Obligors recognize that all appraisals, inventories, analysis, financial information, and other materials which the Agent or any Lender may obtain, develop, or receive with respect to the Obligors is confidential to the Agent and the Lenders and that, except as otherwise provided herein, the Obligors are not entitled to receipt of any of such appraisals, inventories, analysis, financial information, and other materials, nor copies or extracts thereof or therefrom.

5-13. FINANCIAL PERFORMANCE COVENANTS. The Borrower shall observe and comply with those financial performance covenants set forth on EXHIBIT 5-13(a), annexed hereto. Compliance with such financial performance covenants shall be made as if no Material Accounting Changes had been made. The Agent may determine the Borrower's compliance with such covenants based upon financial reports and statements provided by the Borrower to the Agent (whether or not such financial reports and statements are required to be furnished pursuant to this Agreement) as well as by reference to interim financial information provided to, or developed by, the Agent. If the Agent determines, based upon information developed by the Agent, that an Event of Default exists as a result of the Borrower's failure to comply with such covenants, the Agent shall furnish such information which the Agent has developed to the Borrower upon the Borrower's request therefor.

ARTICLE 6- USE AND COLLECTION OF COLLATERAL.

6-1. USE OF INVENTORY COLLATERAL.

(a) The Borrower shall not engage in any sale of the Inventory other than for fair consideration in the conduct of the Borrower's business in the ordinary course and shall not engage in sales or other dispositions to creditors; sales or other dispositions in bulk; and any use of any of the Inventory in breach of any provision of this Agreement.

(b) No sale of Inventory shall be on consignment, approval, or under any other circumstances such that, with the exception of the Borrower's customary return policy applicable to the return of inventory purchased by the Borrower's retail customers in the ordinary course, such Inventory may be returned to the Borrower without the consent of the Agent.

6-2. INVENTORY QUALITY. All Inventory now owned or hereafter acquired by the Borrower is and will be of good and merchantable quality and free from defects (other than defects within customary trade tolerances), other than Inventory owned or acquired for the Levi's Outlet By Designs Stores, which in the ordinary course sells manufacturer's overruns, discontinued lines, and irregulars purchased directly from Levi Strauss & Company.

6-3. ADJUSTMENTS AND ALLOWANCES. The Borrower may grant such allowances or other adjustments to the Borrower's Account Debtors (exclusive of extending the time for payment of any Account or Account Receivable, which shall not be done without first obtaining the Agent's prior written consent in each instance) as the Borrower may reasonably deem to accord with sound business practice, provided, however, the authority granted the Borrower pursuant to this Section 6-3 may be limited or terminated by the Lender at any time in the Agent's discretion.

6-4. -VALIDITY OF ACCOUNTS.

(a) The amount of each Account shown on the books, records, and invoices of the Borrower represented as owing by each Account Debtor is and will be the correct amount actually owing by such Account Debtor and shall have been fully earned by performance by the Borrower.

(b) The Borrower has no knowledge of any impairment of the validity or collectibility of any of the Accounts and shall notify the Agent of any such fact immediately after Borrower becomes aware of any such impairment.

(c) The Borrower shall not post any bond to secure the Borrower's performance under any agreement to which the Borrower is a party nor cause any surety, guarantor, or other third party obligee to become liable to perform any obligation of the Borrower (other than to the Agent) in the event of the Borrower's failure so to perform.

6-5. NOTIFICATION TO ACCOUNT DEBTORS. The Agent shall have the right at any time after the occurrence, and during the continuance, of an Event of Default to notify any of the Borrower's Account Debtors to make payment directly to the Agent and to collect all amounts due on account of the Collateral.

ARTICLE 7- CASH MANAGEMENT. PAYMENT OF LIABILITIES.

7-1. DEPOSITORY ACCOUNTS.

(a) Annexed hereto as EXHIBIT 7-1 is a Schedule of all present DDA's, which Schedule includes, with respect to each depository (i) the name and address of that depository; (ii) the account number(s) of the account(s) maintained with such depository; and (iii) a contact person at such depository.

(b) The Borrower shall deliver to the Agent, as a condition to the effectiveness of this Agreement a notification, executed on behalf of the Obligors, to each depository institution (other than Fleet National Bank) with which any DDA is maintained, in form satisfactory to the Agent, of the Agent's interest in such DDA.

(c) The Obligors will not establish any DDA hereafter, unless the Borrower shall have furnished at least ten (10) days prior written notice to the Agent and unless the Borrower shall deliver to the Agent a notification to the depository institution with which such DDA is to be maintained, in form satisfactory to the Agent, of the Agent's interest in such DDA.

7-2. CREDIT CARD RECEIPTS.

(a) Annexed hereto as EXHIBIT 7-2, is a Schedule which describes all arrangements to which any Obligor is a party with respect to the payment to such Obligor of the proceeds of all credit card charges for sales by the Obligors.

(b) The Borrower shall deliver to the Agent, as a condition to the effectiveness of the Agreement, notification, executed on behalf of the Obligors, to each of the Obligors' credit card clearinghouses and processors of notice (in form satisfactory to the Agent), which notice provides that payment of all credit card charges submitted by the Obligors to that clearinghouse or other processor and any other amount payable to the Obligors by such clearinghouse or other processor shall be directed to the Concentration Account or as may be otherwise directed by the Agent. The

Obligors shall not change such direction or designation except upon and with the prior written consent of the Agent .

7-3. THE CONCENTRATION AND THE FUNDING ACCOUNTS.

(a) The following checking accounts have been or will be established (and are so referred to herein):

(i) The Concentration Account: Established by the Agent with Fleet National Bank.

(ii) The Funding Account: Established by the Borrower with Fleet National Bank (Account No. 4701682 and Account No. 80-048-046).

(b) The contents of each DDA (other than the Funding Account) constitutes Collateral and Proceeds of Collateral. The contents of the Concentration Account constitutes the Agent's property.

(c) The Borrower shall pay all fees and charges of, and maintain such balances as may be required by the Lender or by any bank in which any account is opened as required hereby (even if such account is opened by and/or is the property of the Agent).

7-4. PROCEEDS AND COLLECTION OF ACCOUNTS.

(a) All Receipts constitute Collateral and proceeds of Collateral and shall be held in trust by the Obligors for the Agent; and shall be deposited and/or transferred only to the Concentration Account.

(b) The Borrower shall cause the ACH or wire transfer to the Concentration Account, no less frequently than daily (and whether or not there is then an outstanding balance in the Loan Account) of the then contents of each DDA (other than the Funding Account), each such transfer to be net of any minimum balance, not to exceed \$750.00, as may be required to be maintained in the subject DDA by the bank at which such DDA is maintained).

(c) In the event that, notwithstanding the provisions of this Section 7-4, any Obligor receives or otherwise has dominion and control of any Receipts, or any proceeds or collections of any Collateral, such Receipts, proceeds, and collections shall be held in trust by such Obligor for the Agent and shall not be commingled with any of the Obligors' other funds or deposited in any account of the Obligors other than as instructed by the Agent.

7-5. PAYMENT OF LIABILITIES.

(a) On each Business Day, the Agent shall apply, towards the Liabilities, the then collected balance of the Concentration Account (net of fees charged, and of such impressed balances as may be required by the bank at which the Concentration Account is maintained), provided, however, for purposes of the calculation of interest on the unpaid principal balance of the Loan Account, such payment shall be deemed to have been made One (1) Business Day after such transfer, and further provided that until the occurrence, and during the continuance, of an Event of Default, unless the Borrower otherwise instructs the Agent, the balance of the Concentration Account shall not be applied to any LIBOR Loans until the end of the applicable Interest Period therefor.

(b) The following rules shall apply to deposits and payments under and pursuant to this Agreement:

(i) Funds shall be deemed to have been deposited to the Concentration Account on the Business Day on which deposited, provided that notice of such deposit is available to the Agent by 2:00 PM on that Business Day.

(ii) Funds paid to the Agent, other than by deposit to the Concentration Account, shall be deemed to have been received on the Business Day when they are good and collected funds, provided that notice of such payment is available to the Agent by 2:00 PM on that Business Day.

(iii) If notice of a deposit to the Concentration Account (Section 7-5(b)(i)) or payment (Section 7-5(b)(ii)) is not available to the Agent until after 2:00 PM on a Business Day, unless caused by the Agent's bank's error, such deposit or payment shall be deemed to have been made at 9:00 AM on the next Business Day.

(iv) All deposits to the Concentration Account and other payments to the Agent are subject to clearance and collection.

(c) The Agent shall transfer to the Funding Account any surplus in the Concentration Account remaining after the application towards the Liabilities referred to in Section 7-5(a), above (less those amount which are to be netted out, as provided therein) provided, however, in the event that both (i) an Event of Default has occurred and is continuing, and (ii) one or more L/C's are then outstanding, the Agent may establish a funded

reserve of up to 103% of the aggregate Stated Amounts of such L/C's.

7-6. THE FUNDING ACCOUNT. Except as otherwise specifically provided in, or permitted by, this Agreement, all checks shall be drawn by the Borrower upon and other disbursements made by the Borrower solely from, the Funding Account.

ARTICLE 8- GRANT OF SECURITY INTEREST

8-1. GRANT OF SECURITY INTEREST. To secure the Borrower's prompt, punctual, and faithful performance of all and each of the Liabilities, the Borrower hereby grants to the Agent, for the ratable benefit of the Lenders and their respective Affiliates, a continuing security interest in and to, and assigns to the Agent, for the ratable benefit of the Lenders and their respective Affiliates, the following, and each item thereof, whether now owned or now due, or in which the Borrower has an interest, or hereafter acquired, arising, or to become due, or in which the Borrower obtains an interest, and all products, Proceeds, substitutions, and accessions of or to any of the following (all of which, together with any other property in which the Agent may in the future be granted a security interest, is referred to herein as the "Collateral"):

- (a) All Accounts and accounts receivable.
- (b) All Inventory.
- (c) All General Intangibles.
- (d) All Equipment.
- (e) All Goods.
- (f) All Fixtures.
- (g) All Chattel Paper.
- (h) All Letter-of-Credit Rights.
- (i) All Payment Intangibles.
- (j) All Supporting Obligations.
- (k) All books, records, and information relating to the Collateral and/or to the operation of the Borrower's business, and all rights of access to such books, records, and information, and all property in which such books, records, and information are stored, recorded, and maintained.
- (l) All Investment Property (including, without limitation, stock in the Guarantors), Instruments, Documents, Deposit Accounts, policies and certificates of insurance, deposits, impressed accounts, compensating balances, money, cash, or other property.
- (m) All insurance proceeds, refunds, and premium rebates, including, without limitation, proceeds of fire and credit insurance, whether any of such proceeds, refunds, and premium rebates arise out of any of the foregoing (8-1(a) through 8-1(l)) or otherwise.
- (n) All liens, guaranties, rights, remedies, and privileges pertaining to any of the foregoing (8-1(a) through 8-1(m)), including the right of stoppage in transit.
- (o) All Leasehold Interests.

Notwithstanding anything in this Agreement to the contrary, with respect to each item of Collateral constituting equipment subject to a Capital Lease, or constituting an agreement, license, permit or other instrument of the Borrower, such item shall be subject to the security interest created hereby only to the extent that the granting of such security interest, under the terms of such Capital Lease, agreement, license, permit or other instrument, or as provided by law, does not cause any default under or termination of such Capital Lease, agreement, license, permit or other instrument or the loss of any material right of the Borrower thereunder; provided, however, that in no event shall the foregoing be construed to exclude from the security interest created by this agreement, proceeds or products of any such Capital Lease, agreement, license, permit or other instrument of the Borrower or any accounts receivable or the right to payments due or to become due the Borrower under any such agreement or other instrument.

8-2. EXTENT AND DURATION OF SECURITY INTEREST. The grant of a security interest herein is in addition to, and supplemental of, any security interest previously granted by the Borrower to the Agent and shall continue in full force and effect applicable to all Liabilities until all Liabilities have been paid and/or satisfied in full and the security interest granted herein is specifically terminated in writing by a duly authorized officer of the Agent. It is further intended that, with respect to any term used herein to describe Collateral, which term is defined in either (or both) the UCC as in effect on the date when this Agreement was executed by the Borrowers or in UCC9'99, the meaning given that term shall be the more encompassing of the two definitions.

ARTICLE 9- AGENT AS BORROWER'S ATTORNEY-IN-FACT.

9-1. -APPOINTMENT AS ATTORNEY-IN-FACT. The Borrower hereby irrevocably constitutes and appoints the Agent as the Borrower's true and lawful attorney, with full power of substitution, exercisable after the occurrence, and during

the continuance, of an Event of Default, to convert the Collateral into cash at the sole risk, cost, and expense of the Borrower, but for the sole benefit of the Agent. The rights and powers granted the Agent by such appointment include but are not limited to the right and power to:

(a) Prosecute, defend, compromise, or release any action relating to the Collateral.

(b) Sign change of address forms to change the address to which the Borrower's mail is to be sent to such address as the Agent shall designate; receive and open the Borrower's mail; remove any Receivables Collateral and Proceeds of Collateral therefrom and turn over the balance of such mail either to the Borrower or to any trustee in bankruptcy, receiver, assignee for the benefit of creditors of the Borrower, or other legal representative of the Borrower whom the Agent determines to be the appropriate person to whom to so turn over such mail.

(c) Endorse the name of the Borrower in favor of the Agent upon any and all checks, drafts, notes, acceptances, or other items or instruments; sign and endorse the name of the Borrower on, and receive as secured party, any of the Collateral, any invoices, schedules of Collateral, freight or express receipts, or bills of lading, storage receipts, warehouse receipts, or other documents of title respectively relating to the Collateral.

(d) Sign the name of the Borrower on any notice to the Borrower's Account Debtors or verification of the Receivables Collateral; sign the Borrower's name on any Proof of Claim in Bankruptcy against Account Debtors, and on notices of lien, claims of mechanic's liens, or assignments or releases of mechanic's liens securing the Accounts.

(e) Take all such action as may be necessary to obtain the payment of any letter of credit and/or banker's acceptance of which the Borrower is a beneficiary.

(f) Repair, manufacture, assemble, complete, package, deliver, alter or supply goods, if any, necessary to fulfill in whole or in part the purchase order of any customer of the Borrower.

(g) Use, license or transfer any or all General Intangibles of the Borrower.

9-2. NO OBLIGATION TO ACT. The Agent shall not be obligated to do any of the acts or to exercise any of the powers authorized by Section 9-1 herein, but if the Agent elects to do any such act or to exercise any of such powers, it shall not be accountable for more than it actually receives as a result of such exercise of power, and shall not be responsible to the Borrower for any act or omission to act except for any act or omission to act as to which there is a final determination made in a judicial proceeding (in which proceeding the Agent has had an opportunity to be heard) which determination includes a specific finding that the subject act or omission to act had been grossly negligent or in actual bad faith.

ARTICLE 10- EVENTS OF DEFAULT.

The occurrence of any event described in this Article 10 respectively shall constitute an "Event of Default" herein. Upon the occurrence of any Event of Default described in Section 10-12, any and all Liabilities shall become due and payable without any further act on the part of the Agent or any Lender. Upon the occurrence of any other Event of Default, any and all Liabilities shall become immediately due and payable, at the option of the Agent and without notice or demand. The occurrence of any Event of Default shall also constitute, without notice or demand, a default under all other agreements between the Agent or any Lender and the Borrower and instruments and papers given the Agent or any Lender by the Borrower, whether such agreements, instruments, or papers now exist or hereafter arise.

10-1. FAILURE TO PAY REVOLVING CREDIT. The failure by the Borrower to pay when due any principal or interest hereunder, or fees payable under Sections 2-10, 2-11, 2-12, or 2-16 of this Agreement.

10-2. FAILURE TO MAKE OTHER PAYMENTS. The failure by the Borrower to pay within Five (5) Business Days after the date when due (or upon demand, if payable on demand) any payment Liability other than those set forth in Section 10-1 hereof.

10-3. FAILURE TO PERFORM COVENANT OR LIABILITY (NO GRACE PERIOD). The failure by the Borrower to promptly, punctually, faithfully and timely perform, discharge, or comply with any covenant or Liability not otherwise described in Section 10-1 or Section 10-2 hereof, and included in any of the following provisions hereof:

SECTION:	RELATES TO:
4-5	Location of Collateral
4-6	Title to Assets
4-7	Indebtedness
4-8(b)	Insurance Policies
4-13	Pay taxes
4-25	Affiliate Transactions
4-26	Additional Assurances
5-13	Financial Covenants
6-1	Use of Collateral
Article 7	Cash Management

10-4. FINANCIAL REPORTING REQUIREMENTS.

The failure by the Borrower to promptly, punctually, faithfully and timely perform, discharge, or comply with the financial reporting requirements included in Article 5, subject, however, to the following limited number of grace periods applicable to certain of those requirements:

REPORT / STATEMENT	REQUIRED BY SECTION	GRACE PERIOD	NUMBER OF GRACE PERIODS
Borrowing Base Certificates	5-4	One Business Day	Three per fiscal Quarter
Weekly Report	5-5	Two Business Days	Six in any 12 months
Monthly Report (15 Days)	5-6(a)(i)	Three Business Days	Three in any 12 months
Monthly Reports (30 Days)	5-6(a)(ii)	Three Business Days	Three in any 12 months

10-5. FAILURE TO PERFORM COVENANT OR LIABILITY (GRACE PERIOD).

The failure by the Borrower, upon Thirty (30) days written notice by the Agent, to cure the Borrower's failure to promptly, punctually and faithfully perform, discharge, or comply with any covenant or Liability not described in any of Sections 10-1, 10-2, 10-3 or 10-4 hereof.

10-6. MISREPRESENTATION. The determination by the Agent that any representation or warranty at any time made by the Borrower to the Agent or any Lender, was not true or complete in all material respects when given.

10-7. ACCELERATION OF OTHER DEBT. BREACH OF LEASE. The occurrence of any event such that any Indebtedness of the Borrower to any creditor in excess of \$500,000.00 other than the Agent or any Lender could be accelerated or, without the consent of the Borrower, Leases with aggregate monthly rents of at least \$180,000.00 could be terminated prior to the stated termination date thereof (whether or not the subject creditor or lessor takes any action on account of such occurrence).

10-8. DEFAULT UNDER OTHER AGREEMENTS. The occurrence of any breach or default under any agreement between the Agent or any Lender and the Borrower or instrument or paper given the Agent or any Lender by the Borrower not constituting a Loan Document, whether such agreement, instrument, or paper now exists or hereafter arises, with respect to Indebtedness in excess of \$500,000.00 (notwithstanding that the Agent or the subject Lender may not have exercised its rights upon default under any such other agreement, instrument or paper).

10-9. UNINSURED CASUALTY LOSS. The occurrence of any uninsured loss, theft, damage, or destruction of or to any substantial portion of the Collateral.

10-10. JUDGMENT. RESTRAINT OF BUSINESS.

(a) The attachment by trustee or other process, of any of the Borrower's funds on deposit with, or assets of the Borrower in the possession of, the Agent or any Lender or such Participant.

(b) The entry of any judgment against the Borrower in excess of \$500,000.00, which judgment is not satisfied (if a money judgment) or appealed from (with execution or similar process stayed) within thirty (30) days of its entry.

(c) The entry of any order or the imposition of any other process having the force of law, the effect of which is to restrain in any material way the conduct by the Borrower of its business in the ordinary course.

10-11. BUSINESS FAILURE. Any act by, against, or relating to the Borrower, or its property or assets, which act constitutes the application for, consent

to, or sufferance of the appointment of a receiver, trustee, or other person, pursuant to court action or otherwise, over all, or any part of the Borrower's property; the granting of any trust mortgage or execution of an assignment for the benefit of the creditors of the Borrower, or the occurrence of any other voluntary or involuntary liquidation or extension of debt agreement for the Borrower; the offering by or entering into by the Borrower of any composition, extension, or any other arrangement seeking relief from or extension of the debts of the Borrower; or the initiation of any judicial or non-judicial proceeding or agreement by, against, or including the Borrower which seeks or intends to accomplish a reorganization or arrangement with creditors; and/or the initiation by or on behalf of the Borrower of the liquidation or winding up of all or any part of the Borrower's business or operations.

10-12. BANKRUPTCY. The failure by the Borrower to generally pay the debts of the Borrower as they mature; adjudication of bankruptcy or insolvency relative to the Borrower; the entry of an order for relief or similar order with respect to the Borrower in any proceeding pursuant to the Bankruptcy Code or any other federal bankruptcy law; the filing of any complaint, application, or petition by the Borrower initiating any matter in which the Borrower is or may be granted any relief from the debts of the Borrower pursuant to the Bankruptcy Code or any other insolvency statute or procedure; the filing of any complaint, application, or petition against the Borrower initiating any matter in which the Borrower is or may be granted any relief from the debts of the Borrower pursuant to the Bankruptcy Code or any other insolvency statute or procedure, which complaint, application, or petition is not timely contested in good faith by the Borrower by appropriate proceedings or, if so contested, is not dismissed within ninety (90) days of when filed.

10-13. INDICTMENT-FORFEITURE. The indictment of, or institution of any legal process or proceeding against, the Borrower, under any federal, state, municipal, and other civil or criminal statute, rule, regulation, order, or other requirement having the force of law where the relief, penalties, or remedies sought or available include the forfeiture of any property of the Borrower and/or the imposition of any stay or other order, the effect of which could be to restrain in any material way the conduct by the Borrower of its business in the ordinary course.

10-14. DEFAULT BY GUARANTOR OR RELATED ENTITY. The occurrence of any of the foregoing Events of Default with respect to any Guarantor of the Liabilities, or the occurrence of any of the foregoing Events of Default with respect to any parent (if the Borrower is a corporation), subsidiary, or Related Entity, as if such Guarantor, parent, or Related Entity were the "Borrower" described therein.

10-15. TERMINATION OF GUARANTY. The termination or attempted termination of any guaranty by any Guarantor of the Liabilities.

10-16. CHALLENGE TO LOAN DOCUMENTS.

(a) Any challenge by or on behalf of the Borrower or any Guarantor of the Liabilities to the validity of any Loan Document or the applicability or enforceability of any Loan Document in accordance with the subject Loan Document's material terms or which seeks to void, avoid, limit, or otherwise materially adversely affect the security interest created by or in the Loan Documents or any payment made pursuant thereto.

(b) Any determination by any court or any other judicial or government authority that any Loan Document is not enforceable in accordance with the subject Loan Document's material terms or which voids, avoids, limits, or otherwise materially adversely affects the security interest created by the Loan Documents or any payment made pursuant thereto.

10-17. LEASE DEFAULT. The occurrence of any default, after any applicable grace or cure period, pursuant to that certain Master Lease Agreement of the Borrower with Winthrop Resources Corporation and all Schedules thereto, as such may be amended and in effect from time to time.

10-18. CHANGE IN CONTROL. Any Change in Control.

10-19 MATERIAL ADVERSE CHANGE. An event shall have occurred or failed to occur, which occurrence or failure is or could have a materially adverse effect upon the Borrower's financial condition when compared with such financial condition as of September 30, 2000.

10-20 LEVI STRAUSS CHANGES. There shall have occurred any material adverse change in or to the Borrower's business relationship with Levi Strauss & Co. when compared to such relationship as of October 8, 1999.

ARTICLE 11 - RIGHTS AND REMEDIES UPON DEFAULT.

In addition to all of the rights, remedies, powers, privileges, and discretions which the Agent is provided prior to the occurrence of an Event of Default, the Agent shall have the following rights and remedies upon the

occurrence of any Event of Default and at any time thereafter. No stay which otherwise might be imposed pursuant to Section 362 of the Bankruptcy Code or otherwise shall stay, limit, prevent, hinder, delay, restrict, or otherwise prevent the Agent's exercise of any of such rights and remedies.

11-1. RIGHTS OF ENFORCEMENT. The Agent shall have all of the rights and remedies of a secured party upon default under the UCC, in addition to which the Agent shall have all and each of the following rights and remedies:

(a) To collect the Receivables Collateral with or without the taking of possession of any of the Collateral.

(b) To take possession of all or any portion of the Collateral.

(c) To sell, lease, or otherwise dispose of any or all of the Collateral, in its then condition or following such preparation or processing as the Agent deems advisable and with or without the taking of possession of any of the Collateral.

(d) To conduct one or more going out of business sales which include the sale or other disposition of the Collateral.

(e) To apply the Receivables Collateral or the Proceeds of the Collateral towards (but not necessarily in complete satisfaction of) the Liabilities.

(f) To exercise all or any of the rights, remedies, powers, privileges, and discretions under all or any of the Loan Documents.

11-2. SALE OF COLLATERAL.

(a) Any sale or other disposition of the Collateral may be at public or private sale upon such terms and in such manner as the Agent deems advisable, having due regard to compliance with any statute or regulation which might affect, limit, or apply to the Agent's disposition of the Collateral.

(b) The Agent, in the exercise of the Agent's rights and remedies upon default, may conduct one or more going out of business sales, in the Agent's own right or by one or more agents and contractors. Such sale(s) may be conducted upon any premises owned, leased, or occupied by the Borrower. The Agent and any such agent or contractor, in conjunction with any such sale, may augment the Inventory with other goods (all of which other goods shall remain the sole property of the Agent or such agent or contractor). Any amounts realized from the sale of such goods which constitute augmentations to the Inventory (net of an allocable share of the costs and expenses incurred in their disposition) shall be the sole property of the Agent or such agent or contractor and neither the Borrower nor any Person claiming under or in right of the Borrower shall have any interest therein.

(c) Unless the Collateral is perishable or threatens to decline speedily in value, or is of a type customarily sold on a recognized market (in which event the Agent shall provide the Borrower with such notice as may be practicable under the circumstances), the Agent shall give the Borrower at least seven (7) days prior written notice of the date, time, and place of any proposed public sale, and of the date after which any private sale or other disposition of the Collateral may be made. The Borrower agrees that such written notice shall satisfy all requirements for notice to the Borrower which are imposed under the UCC or other applicable law with respect to the exercise of the Agent's rights and remedies upon default.

(d) The Agent and any Lender may purchase the Collateral, or any portion of it at any sale held under this Article.

(e) The Agent shall apply the proceeds of any exercise of the Agent's Rights and Remedies under this Article 11 towards the Liabilities in such manner, and with such frequency, as the Agent determines.

11-3. OCCUPATION OF BUSINESS LOCATION.

In connection with the Agent's exercise of the Agent's rights under this Article 11, the Agent may enter upon, occupy, and use any premises owned or occupied by the Borrower, and may exclude the Borrower from such premises or portion thereof as may have been so entered upon, occupied, or used by the Agent. The Agent shall not be required to remove any of the Collateral from any such premises upon the Agent's taking possession thereof, and may render any Collateral unusable to the Borrower. In no event shall the Agent be liable to the Borrower for use or occupancy by the Agent of any premises pursuant to this Article 11, nor for any charge (such as wages for the Borrower's employees and utilities) incurred in connection with the Agent's exercise of the Agent's Rights and Remedies.

11-4. GRANT OF NONEXCLUSIVE LICENSE. Except to the extent prohibited by the Borrower's contractual obligations, the Borrower hereby grants to the Agent a royalty free nonexclusive irrevocable license to use, apply, and affix any trademark, trade name, logo, or the like in which the Borrower now or hereafter has rights, such license being with respect to the Agent's exercise of the rights hereunder including, without limitation, in connection with any completion of the manufacture of Inventory or sale or other disposition of Inventory.

11-5. ASSEMBLY OF COLLATERAL. The Agent may require the Borrower to assemble the Collateral and make it available to the Agent at the Borrower's sole risk and expense at a place or places which are reasonably convenient to both the Agent and Borrower.

11-6. RIGHTS AND REMEDIES. The rights, remedies, powers, privileges, and discretions of the Agent hereunder (herein, the " Agent's Rights and Remedies") shall be cumulative and not exclusive of any rights or remedies which it would otherwise have. No delay or omission by the Agent in exercising or enforcing any of the Agent's Rights and Remedies shall operate as, or constitute, a waiver thereof. No waiver by the Agent of any Event of Default or of any default under any other agreement shall operate as a waiver of any other default hereunder or under any other agreement. No single or partial exercise of any of the Agent's Rights or Remedies, and no express or implied agreement or transaction of whatever nature entered into between the Agent and any person, at any time, shall preclude the other or further exercise of the Agent's Rights and Remedies. No waiver by the Agent of any of the Agent's Rights and Remedies on any one occasion shall be deemed a waiver on any subsequent occasion, nor shall it be deemed a continuing waiver. All of the Agent's Rights and Remedies and all of the Agent's rights, remedies, powers, privileges, and discretions under any other agreement or transaction are cumulative, and not alternative or exclusive, and may be exercised by the Agent at such time or times and in such order of preference as the Agent in its sole discretion may determine. The Agent's Rights and Remedies may be exercised without resort or regard to any other source of satisfaction of the Liabilities.

ARTICLE 12- NOTICES.

12-1. NOTICE ADDRESSES. All notices, demands, and other communications made in respect of this Agreement (other than a request for a loan or advance or other financial accommodation under the Revolving Credit) shall be made to the following addresses, each of which may be changed upon seven (7) days written notice to all others given by certified mail, return receipt requested:

If to the Agent:

Fleet Retail Finance Inc.
40 Broad Street
Boston, Massachusetts 02109
Attention : Mr. James Dore
Director
Fax : 617 434-4339

With a copy to:

Riemer & Braunstein
Three Center Plaza
Boston, Massachusetts 02108
Attention : David S. Berman, Esquire
Fax : 617 723-6831

If to the Borrower:

Designs, Inc.
66 B Street
Needham, Massachusetts 02194
Attention : Dennis Hernreich, Senior
Vice President and Chief
Financial Officer
Fax : (781) 444-8999

With a copy to:

Kramer, Levin, Naftalis & Frankel, LLP
919 Third Avenue
New York, New York 10022
Attention : Peter G. Smith, Esquire
Fax : (212) 715-8000

12-2. NOTICE GIVEN.

(a) Except as otherwise specifically provided herein, notices shall be deemed made and correspondence received, as follows (all times being local to the place of delivery or receipt):

- (i) By mail: the sooner of when actually received or Three (3) days following deposit in the United States mail, postage prepaid.
- (ii) By recognized overnight express delivery: the Business Day following the day when sent.
- (iii) By Hand: If delivered on a Business Day after 9:00 AM and no later than Three (3) hours prior to the close of customary business hours of the recipient, when delivered. Otherwise, at the opening of the next Business Day.
- (v) By Facsimile transmission (which must include a header on which the party sending such transmission is indicated): If sent on a Business Day after 9:00 AM and no later than Three (3) hours prior to the close of customary business hours of the recipient, one(1) hour after being sent. Otherwise, at the opening of the next Business Day.

(b) Rejection or refusal to accept delivery and inability to deliver because of a changed address or Facsimile Number for which no due notice was given shall each be deemed receipt of the notice sent.

ARTICLE 13- TERM.

13-1. TERMINATION OF REVOLVING CREDIT. The Revolving Credit shall remain in effect (subject to suspension as provided in Section 2-4(i) hereof) until the Termination Date.

13-2. EFFECT OF TERMINATION. Upon the termination of the Revolving Credit, the Borrower shall pay the Agent (whether or not then due), in immediately available funds, all then Liabilities including, without limitation: the entire balance of the Loan Account; any accrued and unpaid Line Fee; and all unreimbursed costs and expenses of the Agent and of each Lender for which the Borrower is responsible; and shall make such arrangements concerning any L/C's then outstanding are reasonably satisfactory to the Agent. Until such payment, all provisions of this Agreement, other than those contained in Article 2 which place an obligation on the Agent and any Lender to make any loans or advances or to provide financial accommodations under the Revolving Credit or otherwise, shall remain in full force and effect until all Liabilities shall have been paid in full. The release by the Agent of the security and other collateral interests granted the Agent by the Borrower hereunder may be upon such conditions and indemnifications as the Agent may require.

ARTICLE 14- GENERAL.

14-1. PROTECTION OF COLLATERAL. The Agent has no duty as to the collection or protection of the Collateral beyond the safe custody of such of the Collateral as may come into the possession of the Agent and shall have no duty as to the preservation of rights against prior parties or any other rights pertaining thereto. The Agent may include reference to the Borrower (and may utilize any logo or other distinctive symbol associated with the Borrower) in connection with any advertising, promotion, or marketing undertaken by the Agent.

14-2. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon the Borrower and the Borrower's representatives, successors, and assigns and shall enure to the benefit of the Agent and each Lender and the respective successors and assigns of each provided, however, no trustee or other fiduciary appointed with respect to the Borrower shall have any rights hereunder. In the event that the Agent or any Lender assigns or transfers its rights under this Agreement, the assignee shall thereupon succeed to and become vested with all rights, powers, privileges, and duties of such assignor hereunder and such assignor shall thereupon be discharged and relieved from its duties and obligations hereunder.

14-3. SEVERABILITY. Any determination that any provision of this Agreement or any application thereof is invalid, illegal, or unenforceable in any respect in any instance shall not affect the validity, legality, or enforceability of such provision in any other instance, or the validity, legality, or enforceability of any other provision of this Agreement.

14-4. AMENDMENTS. COURSE OF DEALING.

(a) This Agreement and the other Loan Documents incorporate all discussions and negotiations between the Borrower and the Agent and each Lender, either express or implied, concerning the matters included herein and in such other instruments, any custom, usage, or course of dealings to the contrary notwithstanding. No such discussions, negotiations, custom, usage, or course of dealings shall limit, modify, or otherwise affect the provisions thereof. No failure by the Agent or any Lender to give notice to

the Borrower of the Borrower's having failed to observe and comply with any warranty or covenant included in any Loan Document shall constitute a waiver of such warranty or covenant or the amendment of the subject Loan Document. No change made by the Agent in the manner by which Availability is determined shall obligate the Agent to continue to determine Availability in that manner.

(b) The Borrower may undertake any action otherwise prohibited hereby, and may omit to take any action otherwise required hereby, upon and with the express prior written consent of the Agent. No consent, modification, amendment, or waiver of any provision of any Loan Document shall be effective unless executed in writing by or on behalf of the party to be charged with such modification, amendment, or waiver (and if such party is the Agent, then by a duly authorized officer thereof). Any modification, amendment, or waiver provided by the Agent shall be in reliance upon all representations and warranties theretofore made to the Agent by or on behalf of the Borrower (and any guarantor, endorser, or surety of the Liabilities) and consequently may be rescinded in the event that any of such representations or warranties was not true and complete in all material respects when given.

14-5. POWER OF ATTORNEY. In connection with all powers of attorney included in this Agreement, the Borrower hereby grants unto the Agent full power to do any and all things necessary or appropriate in connection with the exercise of such powers as fully and effectually as the Borrower might or could do, hereby ratifying all that said attorney shall do or cause to be done by virtue of this Agreement. No power of attorney set forth in this Agreement shall be affected by any disability or incapacity suffered by the Borrower and each shall survive the same. All powers conferred upon the Agent by this Agreement, being coupled with an interest, shall be irrevocable until this Agreement is terminated by a written instrument executed by a duly authorized officer of the Agent.

14-6. APPLICATION OF PROCEEDS. The proceeds of any collection, sale, or disposition of the Collateral, or of any other payments received hereunder, shall be applied towards the Liabilities in such order and manner as the Agent determines in its sole discretion. The Borrower shall remain liable for any deficiency remaining following such application.

14-7. COSTS AND EXPENSES OF AGENT AND OF LENDERS.

(a) The Borrower shall pay on demand all Administrative Costs and all reasonable expenses of the Agent in connection with the preparation, execution, and delivery of this Agreement and of any other Loan Documents, whether now existing or hereafter arising, and all other reasonable expenses which may be incurred by the Agent in preparing or amending this Agreement and all other agreements, instruments, and documents related thereto, or otherwise incurred with respect to the Liabilities, and all costs and expenses of the Agent which relate to the credit facility contemplated hereby.

(b) The Borrower shall pay on demand all costs and expenses (including attorneys' reasonable fees) incurred, following the occurrence of any Event of Default, by each Lender in connection with the enforcement, attempted enforcement, or preservation of any rights and remedies under this, or any other Loan Document, as well as any such costs and expenses in connection with any "workout", forbearance, or restructuring of the credit facility contemplated hereby.

(c) The Borrower authorizes the Agent to pay all such fees and expenses and in the Agent's discretion, to add such fees and expenses to the Loan Account.

(d) The undertaking on the part of the Borrower in this Section 14-7 shall survive payment of the Liabilities and/or any termination, release, or discharge executed by the Agent in favor of the Borrower, other than a termination, release, or discharge which makes specific reference to this Section 14-7.

14-8. COPIES AND FACSIMILES. This Agreement and all documents which relate thereto, which have been or may be hereinafter furnished the Agent or any Lender may be reproduced by that Person or by the Agent by any photographic, microfilm, xerographic, digital imaging, or other process, and that Person may destroy any document so reproduced. Any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business). Any facsimile which bears proof of transmission shall be binding on the party which or on whose behalf such transmission was initiated and likewise shall be so admissible in evidence as if the original of such facsimile had been delivered to the party which or on whose behalf such transmission was received.

14-9. MASSACHUSETTS LAW.

This Agreement and all rights and obligations hereunder, including matters of

construction, validity, and performance, shall be governed by the laws of The Commonwealth of Massachusetts.

14-10. CONSENT TO JURISDICTION.

(a) The Borrower agrees that any legal action, proceeding, case, or controversy against the Borrower with respect to any Loan Document may be brought in the Superior Court of Suffolk County Massachusetts or in the United States District Court, District of Massachusetts, sitting in Boston, Massachusetts, as the Agent may elect in the Agent's sole discretion. By execution and delivery of this Agreement, the Borrower, for itself and in respect of its property, accepts, submits, and consents generally and unconditionally, to the jurisdiction of the aforesaid courts.

(b) The Borrower WAIVES personal service of any and all process upon it, and irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by certified mail, postage prepaid, to the Borrower at the Borrower's address for notices as specified herein, such service to become effective five (5) Business Days after such mailing.

(c) The Borrower WAIVES any objection based on forum non conveniens and any objection to venue of any action or proceeding instituted under any of the Loan Documents and consents to the granting of such legal or equitable remedy as is deemed appropriate by the Court.

(d) Nothing herein shall affect the right of the Agent to bring legal actions or proceedings in any other competent jurisdiction.

(e) The Borrower agrees that any action commenced by the Borrower asserting any claim or counterclaim arising under or in connection with this Agreement or any other Loan Document shall be brought solely in the Superior Court of Suffolk County Massachusetts or in the United States District Court, District of Massachusetts, sitting in Boston, Massachusetts, and that such Courts shall have exclusive jurisdiction with respect to any such action.

14-11. INDEMNIFICATION. The Borrower shall indemnify, defend, and hold the Agent and each Lender and any employee, officer, or agent of any of the foregoing (each, an "Indemnified Person") harmless of and from any claim brought or threatened against any Indemnified Person by the Borrower, any guarantor or endorser of the Liabilities, or any other Person (as well as from attorneys' reasonable fees and expenses in connection therewith) on account of the relationship of the Borrower or of any other guarantor or endorser of the Liabilities with the Agent, the Funding Agent, or any Lender (each of claims which may be defended, compromised, settled, or pursued by the Indemnified Person with counsel of the Lender's selection, but at the expense of the Borrower) other than any claim as to which a final determination is made in a judicial proceeding (in which the Agent and any other Indemnified Person has had an opportunity to be heard), which determination includes a specific finding that the Indemnified Person seeking indemnification had acted in a grossly negligent manner or in actual bad faith. This indemnification shall survive payment of the Liabilities and/or any termination, release, or discharge executed by the Agent in favor of the Borrower, other than a termination, release, or discharge which makes specific reference to this Section 14-11.

14-12. RULES OF CONSTRUCTION. The following rules of construction shall be applied in the interpretation, construction, and enforcement of this Agreement and of the other Loan Documents:

(a) Words in the singular include the plural and words in the plural include the singular.

(b) Headings (indicated by being underlined) and the Table of Contents are solely for convenience of reference and do not constitute a part of the instrument in which included and do not affect such instrument's meaning, construction, or effect.

(c) The words "includes" and "including" are not limiting.

(d) Text which follows the words "including, without limitation" (or similar words) is illustrative and not limitational.

(e) Text which is underlined, shown in italics, shown in bold, shown IN ALL CAPITAL LETTERS, or in any combination of the foregoing, shall be deemed to be conspicuous.

(f) The words "may not" are prohibitive and not permissive.

(g) The word "or" is not exclusive.

(h) Terms which are defined in one section of an instrument are used

with such definition throughout the instrument in which so defined.

(i) The symbol "\$" refers to United States Dollars.

(j) References to "herein", "hereof", and "within" are to this entire Loan Agreement and not merely to the provision in which such reference is included.

(k) References to "this Agreement" or to any other Loan Document is to the subject instrument as amended to the date on which application of such reference is being made.

(l) Except as otherwise specifically provided, all references to time are to Boston time.

(m) In the determination of any notice, grace, or other period of time prescribed or allowed hereunder:

(i) Unless otherwise provided (I) the day of the act, event, or default from which the designated period of time begins to run shall not be included and the last day of the period so computed shall be included unless such last day is not a Business Day, in which event the last day of the relevant period shall be the next Business Day and (II) the period so computed shall end at 5:00 PM on the relevant Business Day.

(ii) The word "from" means "from and including".

(iii) The words "to" and "until" each mean "to, but excluding".

(iv) The word "through" means "to and including".

(n) The Loan Documents shall be construed and interpreted in a harmonious manner and in keeping with the intentions set forth in Section 14-13 hereof, provided, however, in the event of any inconsistency between the provisions of this Agreement and any other Loan Document, the provisions of this Agreement shall govern and control.

(o) The words "during the continuance of an Event of Default" shall mean the occurrence of an Event of Default which has not been waived by the Agent.

14-13. INTENT. It is intended that:

(a) This Agreement take effect as a sealed instrument.

(b) The scope of the security interests created by this Agreement be broadly construed in favor of the Agent.

(c) The security interests created by this Agreement secure all Liabilities, whether now existing or hereafter arising.

(d) Unless otherwise explicitly provided herein, the Agent's consent to any action of the Borrower which is prohibited unless such consent is given may be given or refused by the Agent in its sole discretion and without reference to Section 2-14 hereof.

(e) Any term used herein to describe Collateral or a Person, which term is defined in either (or both) the UCC as in effect on the date when this Agreement was executed by the Borrowers or in UCC9'99, shall be given the meaning which is the more encompassing of the two definitions.

14-14. RIGHT OF SET-OFF. Any and all deposits or other sums at any time credited by or due to the Borrower from the Agent or any Lender or from any Affiliate of the Agent or any Lender and any cash, securities, instruments or other property of the Borrower in the possession of the Agent or any Lender or any such Affiliate, whether for safekeeping or otherwise (regardless of the reason such Person had received the same) shall at all times constitute security for all Liabilities and for any and all obligations of the Borrower to the Agent and each Lender and any such Affiliate and may be applied or set off against the Liabilities and against such obligations at any time, after the occurrence, and during the continuance, of an Event of Default, whether or not such are then due and whether or not other collateral is then available to the Agent, any Lender or any such Affiliate.

14-15. MAXIMUM INTEREST RATE. Regardless of any provision of any Loan Document, none of the Agent or any Lender shall be entitled to contract for, charge, receive, collect, or apply as interest on any Liability, any amount in excess of the maximum rate imposed by applicable law. Any payment which is made which, if treated as interest on a Liability would result in such interest's exceeding such maximum rate shall be held, to the extent of such excess, as additional collateral for the Liabilities as if such excess were "Collateral."

14-16. WAIVERS.

(a) The Borrower (and all guarantors, endorsers, and sureties of the Liabilities) make each of the waivers included in Section 14-16(b), below, knowingly, voluntarily, and intentionally, and understands that the Agent and each Lender, in entering into the financial arrangements contemplated hereby and in providing loans and other financial accommodations to or for the account of the Borrower as provided herein, whether not or in the future, is relying on such waivers.

(b) THE BORROWER, AND EACH SUCH GUARANTOR, ENDORSER, AND SURETY RESPECTIVELY WAIVES THE FOLLOWING:

(i) Except as otherwise specifically required hereby, notice of non-payment, demand, presentment, protest and all forms of demand and notice, both with respect to the Liabilities and the Collateral.

(ii) Except as otherwise specifically required hereby, the right to notice and/or hearing prior to the Agent's exercising of the Agent's rights upon default.

(iii) THE RIGHT TO A JURY IN ANY TRIAL OF ANY CASE OR CONTROVERSY IN WHICH THE AGENT OR ANY LENDER IS OR BECOMES A PARTY (WHETHER SUCH CASE OR CONTROVERSY IS INITIATED BY OR AGAINST THE AGENT OR ANY LENDER OR IN WHICH THE AGENT OR ANY LENDER IS JOINED AS A PARTY LITIGANT), WHICH CASE OR CONTROVERSY ARISES OUT OF OR IS IN RESPECT OF, ANY RELATIONSHIP AMONGST OR BETWEEN THE BORROWER OR ANY OTHER PERSON AND THE AGENT OR ANY LENDER (AND THE AGENT AND EACH LENDER LIKewise WAIVES THE RIGHT TO A JURY IN ANY TRIAL OF ANY SUCH CASE OR CONTROVERSY).

(iv) The benefits or availability of any stay, limitation, hindrance, delay, or restriction (including, without limitation, any automatic stay which otherwise might be imposed pursuant to Section 362 of the Bankruptcy Code) with respect to any action which the Agent may or may become entitled to take hereunder.

(v) Any defense, counterclaim, set-off, recoupment, or other basis on which the amount of any Liability, as stated on the books and records of the Agent or any Lender, could be reduced or claimed to be paid otherwise than in accordance with the tenor of and written terms of such Liability.

(vi) Any claim to consequential, special, or punitive damages.

14-17. CONFIDENTIALITY. The Agent and each of the Lenders agrees that it will not disclose without the prior consent of the Borrower (other than to its employees, Affiliates, advisors or counsel, each of whom shall be directed to observe this confidentiality obligation) any information with respect to the Borrower or any of its Subsidiaries which is now or in the future furnished pursuant to this Agreement or any other Loan Document and which is designated by the Borrower in writing as confidential, provided, however, that the Agent may disclose any such information (i) as has become generally available to the public, (ii) as may be required in any report, statement or testimony submitted to any municipal, state, or federal regulatory body having or claiming to have jurisdiction over the Agent or any Lender, (iii) as may be required in respect to any summons or subpoena or in connection with any litigation, (iv) in order to comply with any law, order, regulation or ruling applicable to the Agent or any Lender, (v) to any prospective or actual transferee or participant in connection with any contemplated transfer or participation of this Agreement, the Liabilities, or any interest therein by the Agent, provided, however, that such prospective transferee or participant executes a confidentiality agreement with the Agent for the benefit of the Borrower and its Subsidiaries containing similar provisions to those set forth in this Section 14-17, and (vi) as may be reasonably required in connection with the Agent's enforcement of this Agreement or the other Loan Documents against the Borrower and/or its Subsidiaries.

14-18. AMENDMENT AND RESTATEMENT. This Agreement amends and restates the June 4, 1998 Amended and Restated Credit Agreement between Fleet Retail Finance Inc., as agent, the lenders party thereto and the Borrower in its entirety. All of the other documents executed in connection with the existing Credit Agreement remain in full force and effect, provided that In the event of any inconsistency between the terms thereof and the terms of the Loan Documents, the Loan Documents shall control. Without limiting the foregoing, the Borrower ratifies and confirms that the collateral granted to the Agent under the Trademark Security Agreement and the Stock Pledge Agreement dated as of June 4, 1998 (as well as under this Agreement) continues to secure all Liabilities.

By: /s/ DENNIS R. HERNREICH
Print Name: DENNIS R. HERNREICH
Title: SR VP

FLEET RETAIL FINANCE INC.
("Agent")

By:/s/ JAMES R. DORE
Print Name: JAMES R. DORE
Title: DIRECTOR

The "Lenders"

FLEET RETAIL FINANCE INC.

By:/s/ JAMES R. DORE
Print Name: JAMES R. DORE
Title: DIRECTOR

WELLS FARGO BUSINESS CREDIT INC.

By:/s/ SCOTT FIORE
Print Name: SCOTT FIORE
Title: VICE PRESIDENT

AGREEMENT REGARDING LEASES

This Agreement Regarding Leases is made as of the 2nd day of November, 2000 between O.M. 66 B Street LLC ("O.M.") having an address c/o Cabot, Cabot & Forbes of New England, Inc., 99 Summer Street, Boston, MA 02110, Attention: John J. Doherty, President, and Designs, Inc. having an address of 66 B Street, Needham, MA 02494, Attention: David Levin, President and Chief Executive Officer ("Designs").

I. RECITALS

1. O.M. is successor Landlord and Designs is Tenant under that certain Lease by and between the Trustees of the R.C.L. Trusts, the G.W.B. Trusts, and the A.C.F. Trusts as Landlord and Designs as Tenant dated as of November 4, 1995 with respect to that certain real property located within the New England Industrial Center in Needham, Massachusetts known and numbered as 66 B Street, Needham, Massachusetts, including the building thereon (the "Building") containing approximately 80,170 rentable square feet (the "Existing Lease").

2. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Existing Lease.

3. O.M. and Designs wish to grant to O.M. the option to terminate the Existing Lease and to provide for certain other agreements between O.M. and Designs, all on, and subject to, the terms and conditions set forth herein.

NOW, THEREFORE, O.M. and Designs agree as follows:

II. LEASE TERMINATION AGREEMENT; ESCROW AGREEMENT, NEW LEASE

1. Consideration. Within three (3) business days after the date hereof, O.M. shall pay to Designs, by certified or bank check, a non-refundable payment of One Hundred Thousand (\$100,000) Dollars in consideration of the execution and delivery of this Agreement by Designs (the "Consideration Payment"). The Consideration Payment shall be deemed to be earned upon the payment thereof.

2. Option to Terminate Existing Lease.

(a) At any time on or prior to February 2, 2002 (the "Outside Exercise Date") (the period between the date hereof and the Outside Exercise Date being referred to herein as the "Option Period"), O.M. may terminate the Existing Lease (the "Termination Option") by giving notice of termination to Designs in the form of Annex A hereto (the "Termination Notice"), with a copy thereto to First American Title Insurance Company (or such other escrow agent upon which the parties hereto shall reasonably agree if First American Title Insurance Company is unable or unwilling to serve as escrow agent) ("Escrow Agent"), which notice and termination shall be effective only if O.M. also tenders to Escrow Agent at the time it gives the Termination Notice as aforesaid (i) in the form of a certified or bank check payable to

Escrow Agent, or by wire transfer in immediately available funds, the sum of Four Million Four Hundred Thousand (\$4,400,000) Dollars (the "Termination Notice Fee"), which shall be held and disbursed in accordance with the provisions of this Agreement and the Escrow Agreement in the form of Annex B hereto, which Escrow Agreement is to be entered into simultaneously with this Agreement by and among O.M., Designs and Escrow Agent, and (ii) a letter of credit in the amount of Four Million Five Hundred Thousand Dollars (\$4,500,000) (the "O.M. Surrender LC") in the form of Annex C hereto. The O.M. Surrender LC shall be issued by the bank identified in Annex C or another bank reasonably acceptable to Designs.

(b) The "Termination Condition" shall mean that (i) O.M. shall have given the Termination Notice to Designs and to Escrow Agent in accordance with the provisions of this Section 2, (ii) O.M. shall have paid to Escrow Agent the Termination Notice Fee and shall have delivered to Escrow Agent the O.M. Surrender LC in accordance with the provisions hereof and (iii) either:

(A) the debis Mortgage (as hereinafter defined) and any other mortgage encumbering the Premises (collectively referred to herein as the "Mortgage") shall have been satisfied in full (as evidenced by either the filing of a discharge of the Mortgage with the Norfolk Registry District of the Land Court or by the issuance by a nationally recognized title insurance company of a title insurance policy (or an endorsement to O.M.'s existing title insurance policy) insuring that the lien of the Mortgage no longer encumbers title to the Premises, a copy of which discharge or title policy (or title policy endorsement) shall be delivered to Designs simultaneously with the Termination

Notice), or

(B) the holder of the Mortgage shall have consented to the termination of the Existing Lease and the execution and delivery of the New Lease and shall have agreed in writing that the Existing SNDA (as hereinafter defined) (in the case of the debis Mortgage) and any other applicable subordination, non-disturbance and attornment agreement executed by the holder of any other Mortgage and Designs pursuant to the terms and conditions of the Existing Lease (an "Other SNDA") shall apply to the New Lease with the same effect as it had applied to the Existing Lease.

(c) Upon satisfaction of the Termination Condition at any time on or prior to the Outside Exercise Date, the Existing Lease shall terminate on the tenth (10th) day after the satisfaction of the Termination Condition (the "Termination Date"), as if the originally scheduled expiration date of the Existing Lease were the Termination Date.

3. Initial Design Payment Condition. Designs shall be entitled to receipt of the Termination Notice Fee immediately upon its providing to Escrow Agent two (2) original counterpart executed copies of the "Confirmatory Acknowledgement of Termination" in the form of Annex D hereto with changes to reflect appropriate dates and a letter of credit in the amount of Four Million Four Hundred Thousand (\$4,400,000) Dollars (the "Designs Security LC") substantially in the form of Annex E hereto (or other form reasonably acceptable to O.M.) (collectively, the "Initial Designs Payment Condition"), but the failure of Designs to satisfy the Initial Designs Payments Condition shall not affect the validity of the Termination Notice, it being expressly agreed that the Existing Lease shall automatically and without further action terminate on the Termination Date upon O.M.'s satisfaction of the Termination Condition on or prior to the Outside Exercise Date. The Designs Security LC shall be issued by the bank identified in Annex E or another bank reasonably acceptable to O.M.

4. Continuing Obligations Under Existing Lease.

(a) Except as provided in this Agreement, if O.M. exercises the Termination Option, then, effective as of the Termination Date, neither O.M. or Designs shall have any liability or obligation to the other under or with respect to the Existing Lease, all of which obligations and liabilities shall be deemed to be terminated, extinguished and waived as of the Termination Date; provided, however, that neither the foregoing provisions of this sentence nor any other provision of this Agreement shall be deemed to terminate, extinguish or waive the respective liabilities or obligations of O.M. and Designs under Section 7.10 of the Existing Lease (but only in respect of third party (i.e. not the parties hereto) tort claims made against the applicable indemnified party for bodily injury, death or property damage to persons or entities, but specifically excluding any claims with respect to Environmental Matters, as defined below), which obligations and liabilities shall survive the termination of the Existing Lease. Without limiting the foregoing, if O.M. exercises the Termination Option in accordance with the terms hereof:

- (i) The rights and obligations of Designs with respect to the removal of FF&E, alterations and improvements from the New Lease Premises (hereafter defined) shall be governed by the terms of the New Lease (hereafter defined);
- (ii) Designs shall have no obligation to remove, or cause any subtenant or other occupant of the Premises to remove, any FF&E, alterations, improvements or other property from any portion of the Premises other than the New Lease Premises or to vacate any such other portion of the Premises (provided, however, that neither the foregoing provisions of this clause (ii) nor any other provision hereof shall grant or confer, or be deemed to grant or confer, any right to any subtenant or other occupant to use or occupy any portion of the Premises except as expressly provided in the respective Occupancy Agreements);
- (iii) The provisions of Section 7.13 of the Existing Lease shall be of no force or effect from and after the Termination Date;
- (iv) The provisions of Section 11 of the Existing Lease shall be of no force or effect from and after the Termination Date, it being understood and agreed that Designs' occupancy of the New Lease Premises shall be governed by the New Lease, and to the extent specifically provided herein, this Agreement, from and after the Termination Date; and
- (v) Subject to the terms and provisions of the New Lease and Section II (4)(c) below, Designs shall not have any

liability or obligation to O.M. with respect to the condition of the Premises as of the Termination Date.

(b) Promptly after termination of the Existing Lease, O.M. and Designs shall prorate, as of 11:59 p.m. on the day immediately preceding the Termination Date, all Fixed Rent and Additional Rent under the Existing Lease which has been paid in advance or is in arrears, and a balancing payment shall be made by or to Designs, as the case requires, within ten days of O.M. providing to Designs a reconciliation of the same. Without limiting the foregoing or any other provision hereof, all income and other amounts payable under any Occupancy Agreement (less an amount equal to \$5.30 per square foot per annum of the applicable sublease premises calculated on a per diem basis to the extent of any prepaid operating expenses and taxes) that are attributable to the period from and after the Termination Date shall belong to O.M. and all prepaid rents and other charges (less an amount equal to \$5.30 per square foot per annum of the applicable sublease premises calculated on a per diem basis to the extent of any prepaid operating expenses and taxes) under the Occupancy Agreements for the period from and after the Termination Date shall be duly accounted for simultaneously with the foregoing balancing payment (to the extent not already paid to O.M.).

(c) Notwithstanding any provision of the Existing Lease or New Lease to the contrary, if O.M. exercises its Termination Option, Designs shall not be liable in any way for, and O.M. shall not exercise any rights or remedies against Designs as a result of, and O.M. hereby releases, waives and agrees to make no claim against Designs in connection with, any actual or alleged breach of any representation, warranty, agreement or covenant set forth in the Existing Lease or New Lease, or otherwise with respect to oil, chemicals, toxic substances, hazardous waste or materials or other environmental matters (collectively, "Environmental Matters") except to the extent that:

- (i) (A) such breach was caused by Designs or any of its contractors, agents or employees, and (B) O.M. gives written notice to Designs of any applicable claim within five (5) business days after the earlier of the Surrender Date or the date that O.M. actually commences Material Construction Work (as defined below), and O.M. commences suit with respect to such claim within twelve (12) months after the earlier of the Surrender Date or the date that O.M. actually commences Material Construction Work, or
- (ii) such breach is the result of the gross negligence or willful misconduct of Designs or any of its employees, agents or contractors.

The burden of proof in any action or proceeding under this Section 4 shall be upon O.M. As used herein, the term "Material Construction Work" shall mean demolition, excavation or construction work commenced by, or at the direction of, O.M. in connection with the Land and/or the Building; provided, however, that Material Construction Work shall not be deemed to mean or include demolition or construction activity customarily associated with the fit up of tenant space or remodeling of common areas, or ordinary and customary maintenance and repairs of the Building or the Land. Notwithstanding any provision hereof or the New Lease to the contrary, O.M. shall not have the right to offset any amounts due or alleged to be due from Designs under this Section against the Early Termination Fee. For purposes of clarification, nothing contained herein shall be deemed to constitute or create any contractual indemnification by O.M. of Designs with respect to any claim made by any governmental authority or third party against Designs relating to any Environmental Matter caused by Designs.

5. New Lease. As provided in the Escrow Agreement, immediately upon O.M.'s satisfaction of the Termination Condition, Escrow Agent shall date the New Lease as of the Termination Date and release from escrow to O.M. and Designs the lease of a portion of the Building described on Annex F attached hereto (the "New Lease Premises") in the form of Annex G hereto which is to be entered into simultaneously with the execution of this Agreement by O.M. and Designs (the "New Lease"). O.M. hereby covenants that it shall not intentionally interfere (nor shall its affiliates that it controls intentionally interfere) with any effort or attempt by Designs to vacate or yield up the Premises demised under the New Lease. If O.M. shall not exercise the Termination Option in accordance with the terms hereof on or before the Outside Exercise Date, then promptly thereafter Escrow Agent shall destroy all counterparts of the New Lease deposited with it and this Agreement shall be of no further force or effect. In the event of any conflict between the provisions of the New Lease and the provisions of this Agreement, this Agreement shall govern.

6. Early Termination Fee; Surrender Fee.

(a) Subject to the provisions of Sections II(6)(b) and (c) below, O.M. agrees that if the Surrender Condition (hereafter defined) is satisfied by the Required

Surrender Date (hereafter defined), O.M. shall pay to Designs an "Early Termination Fee" of Eight Million Nine Hundred Thousand (\$8,900,000) Dollars, consisting of the sum of the Termination Notice Fee (payable at the time the Termination Condition is satisfied, as provided in Section II2 above) and an additional sum of Four Million Five Hundred Thousand (\$4,500,000) Dollars (the "Surrender Fee"), payable to Designs on the date upon which the Surrender Condition is satisfied in the form of a certified or bank check, or by wire transfer in immediately available funds. The Early Termination Fee shall be in addition to the Consideration Payment payable at the time of execution of this Agreement. The "Surrender Condition" shall mean that the New Lease Premises shall be free and clear of all tenants and occupants claiming by, through, or under Designs (including, without limitation, Designs), and Designs shall have given notice to O.M. in the form of Annex H attached hereto. The Surrender Condition shall be considered to be satisfied regardless of whether Designs abandons or removes its personal property from the New Lease Premises. The "Required Surrender Date" shall mean the date on which the New Lease is terminated or the Term thereof expires.

(b) Within five (5) business days after the date of satisfaction of the Surrender Condition (the "Surrender Date"), O.M. shall have the right to (X) cause the New Lease Premises to be inspected by a property inspector listed on Annex I attached hereto and incorporated herein by this reference or another property inspector reasonably satisfactory to O.M. and Designs (a "Property Inspector") and (Y) to cause such Property Inspector, within such five (5) business day period, to issue a report to O.M., Designs and Escrow Agent setting forth such Property Inspector's determination as to whether there is Material Damage (as hereinafter defined) to the New Lease Premises, and, if so, the cost, as reasonably estimated by the Property Inspector, to repair or restore the New Lease Premises as a result of such Material Damage (which cost shall be deducted from the Early Termination Fee). If O.M. exercises its Termination Option, the right to cause such inspection to be performed, the issuance of such report within such five (5) business day period and the deduction of such amount (if any) from the Early Termination Fee shall be O.M.'s sole and exclusive remedy at law or in equity against Designs for the physical condition of the New Lease Premises. If the Property Inspector shall not inspect the New Lease Premises and issue such report within such five (5) business day period, then O.M. shall be deemed to have waived its sole and exclusive remedy. As used herein, the term "Material Damage" shall mean and refer to any damage to:

- (A) the interior of the New Lease Premises occurring during the term of the New Lease which exceeds the damage which would be reasonably expected to occur as a result of (i) normal wear and tear in connection with Designs' use of the New Lease Premises during the term of the New Lease, or (ii) vacating the New Lease Premises and removing Designs' personal property or the Enumerated FF&E therefrom in accordance with commercially reasonable custom and practice and
- (B) any other portion of the Building (including, without limitation, the roof) caused by the removal of any of the Enumerated Property.

Within ten (10) days after the exercise date of the Termination Option, but in any event, on at least two (2) business days' prior notice to Designs, O.M. shall cause such Property Inspector to inspect the New Lease Premises for the purpose of determining the physical condition thereof. Material Damage shall not be deemed to include any damage to the physical condition of the New Lease Premises existing as of the date of such inspection. The foregoing provisions of this paragraph (b) shall not be deemed to limit, impair or expand the rights and remedies of O.M. with respect to the environmental condition of the New Lease Premises, which shall be governed exclusively by the provisions of Section II (4)(c) hereof and the provisions of the New Lease.

(c) O.M. and Designs agree that if Designs does not satisfy the Surrender Condition on or prior to the Required Surrender Date, but Designs satisfies the Surrender Condition prior to the date which is thirty (30) days after the Required Surrender Date (the "Outside Surrender Date"), a portion of the Surrender Fee shall be payable to Designs on the date upon which it satisfies the Surrender Condition, such portion to be calculated by reducing the Surrender Fee by One Hundred Fifty Thousand (\$150,000) Dollars for each day after the Required Surrender Date that the Surrender Condition is not satisfied; provided, however, that the date of commencement for such reduction of Surrender Fee shall be subject to extension for Force Majeure but not to a date later than the date which is fourteen (14) days after the Required Surrender Date. As used herein, the term "Force Majeure" shall mean any or all of the following: strikes; lock-outs; labor troubles; accidents; interference by O.M.; governmental

restriction, preemption, regulation or control; mechanical breakdown; inability to obtain labor, fuel, steam, water, electricity or materials; acts of God; enemy action; civil commotion; or fire or other casualty; provided, however, that:

- (i) Force Majeure shall not be deemed to mean or include lack of funds; and
- (ii) no event of Force Majeure shall extend the time for commencement of reduction of the Surrender Fee as set forth above to the extent that Designs could have exercised commercially reasonable efforts to mitigate the applicable delay and failed to do so; and
- (iii) Designs shall endeavor to give notice to O.M. as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any event of Force Majeure which Designs reasonably believes may delay the surrender of the Leased Premises beyond the Required Surrender Date; provided that Designs' failure to give any such notice shall not in any manner affect Designs' rights under the proviso contained in the first sentence of this Paragraph 6(c).

Designs hereby covenants to use commercially reasonable efforts to mitigate any delay resulting from any Force Majeure event which actually occurs. In no event shall the Outside Surrender Date be extended as a result of Force Majeure or for any other reason whatsoever. Subject to the provisions of Section II (6)(d) hereof, no reduction of the Surrender Fee under this subsection shall effect Design's right to retain the Termination Notice Fee. If O.M. exercises its Termination Option, O.M.'s right to a reduction of the Surrender Fee under this Section II (6)(c) and to repayment of the balance of the Early Termination Fee under Section II (6)(d) hereof, and O.M.'s rights and remedies under the New Lease, shall constitute O.M.'s sole and exclusive rights and remedies, at law or in equity, in connection with any failure of Designs to vacate, surrender and abandon the New Lease Premises on or before the Required Surrender Date.

(d) Without limiting the provisions of the foregoing clause (c), if the Surrender Condition is not satisfied by the Outside Surrender Date, Designs shall not be entitled to any portion of the Early Termination Fee, and Designs shall repay to O.M. the entire Termination Notice Fee. If Designs shall not satisfy the Surrender Condition on or prior to the Outside Surrender Date and Designs shall not repay to O.M. the Termination Notice Fee on or before the Outside Surrender Date, then O.M. shall be entitled to require Escrow Agent to (x) if Escrow Agent shall not have theretofore drawn down the Designs Security LC, draw down the Designs Security LC and pay to O.M., by a certified, bank check or wire transfer of immediately available funds, the proceeds of the Designs Security LC (i.e. funds in the amount of the Termination Notice Fee), or (y) if Escrow Agent shall have theretofore drawn down the Designs Security LC, pay to O.M., by a certified, bank check or wire transfer of immediately available funds, such portion of the proceeds of the Designs Security LC. If the Surrender Condition is satisfied on or before the Outside Surrender Date, or the Surrender Condition is not satisfied by the Outside Surrender Date but Designs has repaid to O.M. the entire Termination Notice Fee on or before the Outside Surrender Date, then, in either case, the Escrow Agent shall return the Designs Security LC to Designs upon demand by Designs.

(e) If Designs satisfies the Surrender Condition on or before the Outside Surrender Date, and O.M. fails or refuses to pay the Surrender Fee or so much thereof as is due to Designs in accordance with the terms hereof, then Designs shall be entitled to require Escrow Agent to (x) if Escrow Agent shall not have theretofore drawn down the O.M. Surrender LC, draw down the O.M. Surrender LC and pay to Designs, by a certified, bank check or wire transfer of immediately available funds, so much of the proceeds thereof (i.e. funds in the amount of the Surrender Fee) as is due to Designs in accordance with the terms hereof or (y) if Escrow Agent shall have theretofore drawn down the O.M. Surrender LC, pay to Designs, by a certified, bank check or wire transfer of immediately available funds, the Surrender Fee (or so much thereof as is due to Designs in accordance with the terms hereof). If the Surrender Condition is not satisfied on or before the Outside Surrender Date, or the Surrender Condition is satisfied by the Outside Surrender Date and O.M. has paid to Designs the Surrender Fee (or so much thereof as is due to Designs in accordance with the terms hereof), then, in either case, the Escrow Agent shall return the O.M. Surrender LC to O.M. promptly upon demand by O.M..

(f) Effective immediately upon the date of satisfaction of Surrender Condition, Designs hereby conveys, transfers and sells to O.M. all of Design's rights, title and interest in, to and under any FF&E, alterations, improvements and personal property of Designs or any party claiming by, through or under Designs remaining at the Premises all of which shall be deemed to have been abandoned by Designs. The foregoing conveyance, transfer and sale shall be effective automatically as of the Surrender Date without the need for any further action

by Designs. Without limiting the foregoing, Designs hereby agrees to execute such documents, instruments and agreements as O.M. may reasonably request to ratify and confirm such conveyance, transfer and sale.

III. OTHER AGREEMENTS; MISCELLANEOUS

1. This Agreement, which may be executed in counterpart copies, any of which shall constitute a single original, shall be governed by Massachusetts law. O.M. and Designs each hereby consent to jurisdiction of the courts of the Commonwealth of Massachusetts in connection with any dispute relating to this Agreement, the Escrow Agreement, the Existing Lease or the New Lease. This Agreement shall be binding on and inure to the benefit of O.M. and Designs, and their respective successors and assigns; provided, however, that O.M. shall not assign this Agreement, or its interests, rights or obligations hereunder, to any person or entity other than a transferee of O.M.'s interest in the Land and the Building (including, without limitation, any transferee by reason of any sale, foreclosure, deed in lieu of foreclosure, merger, consolidation or ground lease). Any successor or assignee of O.M. with respect to O.M.'s interest, rights or obligations in this Agreement shall agree directly with Designs by written instrument in form and substance reasonably satisfactory to O.M. and Designs, to be bound by all of the obligations of O.M. under this Agreement, the Escrow Agreement, the Existing Lease and, if the Termination Option is exercised by O.M. in accordance with the terms hereof, the New Lease. Without limiting the provisions of the immediately foregoing sentence, in the event of any assignment of O.M.'s interest, rights and obligations hereunder to any ground lessee, the owner of the fee interest in the Land and the Building shall join such instrument to evidence that it shall be jointly and severally liable with the ground lessee for the obligations of O.M. hereunder. Nothing herein contained shall be deemed to limit or impair the right of any member of O.M. to sell or transfer any or all of its membership interests in O.M. to any other person or entity. Notwithstanding the foregoing, Designs may not assign its interest, rights or obligations in this Agreement without the consent of O.M., which consent may be withheld in the sole discretion of O.M; provided, however, that the foregoing provisions of this sentence shall not apply to, and O.M.'s consent shall not be required with respect to, any assignment by Designs of its interest, rights or obligations in this Agreement to any entity into or with which Designs is merged or consolidated or to which substantially all of Designs' assets are transferred, provided that (i) the successor to Designs has a net worth computed in accordance with generally-accepted accounting principles which is reasonably commensurate with, and sufficient to meet, the financial obligations of Designs hereunder, (ii) proof reasonably satisfactory to O.M. of such net worth shall have been delivered by Designs to O.M. at least ten (10) days prior to the effective date of any such transaction, and (iii) the assignee agrees directly with O.M., by written instrument in form and substance reasonably satisfactory to Designs, to be bound by all of the obligations of Designs under this Agreement, the Existing Lease and, if the Termination Option is exercised by O.M. in accordance with the terms hereof, the New Lease, including, without limitation, the covenant against further assignment.

2. Subject to the provisions of Section III (5)(B) below, during the term of the Existing Lease and during the term of the New Lease, Designs agrees that it will not make any assignment thereof or enter into any Occupancy Agreement or modify or amend any existing Occupancy Agreement, and Designs further agrees that, notwithstanding anything to the contrary in the Existing Lease or the New Lease, O.M. may withhold its consent to any request for consent to any assignment thereunder or to any Occupancy Agreement or modification or amendment of any existing Occupancy Agreement in its sole discretion. Nothing herein contained shall be deemed to limit or impair the right of any shareholder of Designs to sell or transfer any or all of its stock in Designs. For the purposes of this Agreement, the term "assignment" shall exclude the merger or consolidation of Designs with or into, or the transfer of substantially all of Designs' assets to, any other entity and the assignment of the Existing Lease or the New Lease to any such entity (provided that (i) the successor entity has a net worth computed in accordance with generally-accepted accounting principles which is reasonably commensurate with, and sufficient to meet, the financial obligations of Designs under this Agreement, the Existing Lease and the New Lease, (ii) proof reasonably satisfactory to O.M. of such net worth shall have been delivered to O.M. at least ten (10) days prior to the effective date of any such merger or consolidation, and (iii) the successor entity agrees directly with O.M., by written instrument in form and substance reasonably satisfactory to O.M. to be bound by all of the obligations of Designs under this Agreement, the Existing Lease and the New Lease, as the case may be, including, without limitation, the covenant against further assignment hereunder. This Paragraph shall be null and void and of no force or effect if O.M. shall fail to exercise the Termination Option in accordance with the terms hereof on or before the Outside Exercise Date.

3. Simultaneous with the execution hereof, Designs shall provide to O.M. a Clerk's or Secretary's Certificate of Vote certifying that the Board of Directors of Designs has authorized the execution and delivery of this Agreement, and all additional documentation contemplated pursuant thereto, by

Resolutions of the Board of Directors which remain in full force and effect, and have authorized the signatories to this Agreement to enter into all such documentation on behalf of Designs. Simultaneous with the execution hereof, O.M. shall provide to Designs a member's certificate of vote certifying that the sole member of O.M. has authorized the execution and delivery of this Agreement, and all additional documentation contemplated pursuant thereto, by resolutions which remain in force and effect, and has authorized the signatory to this Agreement to enter into all such documentation on behalf of O.M.

4. Subject to the provisions of Section III (13) below, during the term of this Agreement and during the term of the New Lease, if any, O.M., its agents and representatives, shall be entitled to enter into discussions and negotiations with existing subtenants under the Occupancy Agreement regarding, among other things, the termination of subleases resulting from the termination of the Existing Lease. Subject to the provisions of Section III(13) below, such discussions and negotiations may include disclosure of the existence, nature and effect of this Agreement, or portions thereof, but not the financial terms hereof or provisions of Section III(6) below. Further, in the event that O.M. and any subtenant reach any agreement regarding any sublease which requires the action or consent of Designs, Designs will not unreasonably withhold its consent to such action or consent, provided, however, that the foregoing shall not obligate Designs to expend any sums, or forego any revenue, incur any obligation or liability, or otherwise decrease Design's rights or increase its obligations under any Occupancy Agreement or any other document or agreement.

5. Designs represents and warrants to O.M. as follows:

A. The only subleases, licenses, occupancy agreements or other agreements or instruments pursuant to which any person or entity has the right to occupy the Premises demised under the Existing Lease which were executed or consented to by Designs, or of which Designs has knowledge ("Occupancy Agreements"), are as follows:

- (i) Agreement of Sublease dated as of March 3, 1998 by and between Designs and ZD Comdex & Forms, Inc. (now Key3Media Events, Inc.) (the "Comdex Sublease");
- (ii) Agreement of Sublease by and between Designs and Atreve Software, Inc. dated as of July 1, 1998, the successor subtenant under which is Inktomi Corporation, as amended by First Amendment to Sublease dated as of September 11, 2000 (the "Inktomi Sublease"); and
- (iii) Agreement of Sublease (the "Xyan Sublease") dated as of August 10, 2000 by and between Designs and Xyan.com, Inc. ("Xyan"), including that certain letter dated September 11, 2000.

B. The consent of O.M. shall not be required for Designs to terminate any Occupancy Agreement This Paragraph shall be null and void and of no force or effect if O.M. shall fail to exercise the Termination Option in accordance with the terms hereof on or before the Outside Exercise Date.

C. Designs has delivered true, correct and complete copies of the foregoing Occupancy Agreements to O.M., and the same have not been amended, orally or in writing.

6. O.M. shall defend, with counsel reasonably acceptable to Designs, save harmless, and indemnify Designs and all agents, directors, employees, officers and shareholders of Designs (Designs and all such other parties being referred to herein collectively as the "Indemnified Parties") from any and all liabilities, claims, actions, suits, obligations, damages, proceedings, expenses and costs (including, without implied limitation, reasonable counsel fees and disbursements) which may be imposed upon, incurred by or asserted against any Indemnified Party by, or for the benefit of, Xyan as a result of, by reason of, or in any manner relating to, this Agreement, the New Lease and/or the negotiation, execution, delivery and/or performance of this Agreement and/or the New Lease by O.M. and/or Designs, including, without limitation, the exercise of O.M.'s rights under Section III 4 hereof and/or the termination of the Xyan Sublease.

7. Whenever any notice, approval, consent or request is given pursuant to this Agreement, it shall be in writing. Communications, unless otherwise specified by five (5) days' prior notice, shall be addressed to the parties addresses stated in the header of this Agreement, with copies in the case of notices to O.M. to Hale and Dorr LLP, 60 State Street, Boston, MA 02109, Attention: William R. O'Reilly, Jr., Esq. and in the case of notice to Designs to Kenneth Cummins, Esq., Designs, Inc. 66B Street, Needham, MA 02494 and Kramer, Levin Naftalis & Frankel, LLP, 919 Third Avenue, New York, NY 10022-3852, Attention: Peter Smith, Esq. Any communications so addressed shall be deemed duly served, (a) if mailed by registered or certified mail, return receipt requested, postage prepaid upon the earlier of (i) three (3) days after mailing within the Continental United States, or (ii) receipt of same or refusal of delivery, (b) if delivered by

recognized overnight delivery service, upon the earlier of (i) one (1) business day after deposit with such service, (ii) receipt of same, or (iii) refusal of delivery, or (c) if delivered by hand, upon receipt of same or refusal of delivery. Any party hereto may change its address for purposes of notices and other communications by giving at least three (3) business days' prior notice to the other party hereto as aforesaid.

8. No individual partner, member, trustee, stockholder, officer, director, employee or beneficiary of O.M. or Designs shall be personally liable under this Agreement. Designs shall look solely to O.M.'s interest in the Land and the Building (as defined in the Existing Lease), including without limitation, rents, income, profits and insurance related to the Land and the Building, but not upon other assets of O.M. not related to the Land or Building, except in the case of fraud or misapplication of funds, and to other security provided pursuant to the terms hereof and the Escrow Agreement, in pursuit of its remedies upon a default by O.M. hereunder, the general assets of the individual partners, members, trustees, stockholders, officers, employees or beneficiaries of O.M. and Designs shall not be subject to levy, execution or other enforcement procedure for the satisfaction of the remedies of O.M. or Designs; provided that the foregoing provisions of this sentence shall not constitute a waiver of any obligation evidenced by this Agreement and provided further that the foregoing provisions of this sentence shall not limit the right of either party to name the other or any individual partner, member or trustee thereof as party defendant in any action or suit in connection with this Agreement so long as no personal money judgment shall be asked for or taken against any individual partner, member, trustee, stockholder, officer, employee or beneficiary of O.M. or Designs.

9. No consent or waiver, express or implied, by either party to or of any breach of any agreement or duty shall be construed as a waiver or consent to or of any other breach of the same or any other agreement or duty.

10. O.M. and Designs each hereby represents and warrants to the other that it has not had any dealings with any broker in connection with the transaction contemplated herein, and that it knows of no broker or agent who is entitled to a commission in connection with the transactions contemplated herein. Each party hereby agrees to indemnify, defend and hold the other harmless from and against any all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) with respect to any breach by such party of its representations and warranties set forth in this Paragraph.

11. O.M. hereby represents and warrants that there is no mortgage encumbering the Land and/or the Building in force or effect as of the date hereof other than that certain mortgage held by debis Financial Services, Inc. ("debis") dated as of March 17, 1999, filed for registration with the Norfolk Registry of District of the Land Court as Document No. _____ on Certificate of Title No. _____ (the "debis Mortgage"), (ii) there is no ground lease encumbering the Land or the Building in force or effect as of the date hereof, and (iii) that certain Subordination, Nondisturbance and Attornment Agreement dated May 16, 1996 and filed for registration with the Norfolk Registry District of the Land Court as Document No. 738474, by and between Grove Bank and Designs, is no longer in force or effect.

12. If any term, provision or condition contained in this Agreement shall, to any extent, be invalid or unenforceable, the remainder of this Agreement, or the application of such term, provision or condition, to persons or circumstances other than those with respect to which it is invalid or unenforceable, shall not be affected thereby and each and every other term, provision and condition of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

13. Confidentiality. Each party hereto agrees to maintain the confidentiality of the financial and other material terms and conditions of this Agreement, other than information that is available from public sources other than as a result of such party's actions. Either party may, however, disclose any of such information to its agents, directors, officers, employees, advisors, attorneys, affiliates or representatives who require such information for the purpose of performing or assisting in the performance of its obligations or services hereunder, and to investors or lenders or proposed investors or lenders in or to such party, and to purchasers or proposed purchasers of the Premises, provided that in all such cases such parties shall be informed of, and agree (orally or in writing) to abide by, the confidential nature of such information. In addition, (i) Designs, as a public company, may disclose material terms and conditions of this Agreement in a Form 8-K and/or other filings with the SEC and/or by press release following the execution hereof, and (ii) either party hereto may also disclose any such information (x) to the extent required by law, regulation (including SEC regulations) or court order provided that such party shall have first, to the extent reasonably practicable, advised the other of the requirement to disclose such information and shall have afforded the other an opportunity to dispute such requirement and seek relief therefrom by legal

process (each party hereby agreeing to cooperate, upon written request made by the other party, with the other party in good faith to promptly respond to any such notice of advice as to disclosure required by any applicable law, regulation or court order), (y) in connection with any suit, action, arbitration or other proceedings between the parties hereto or their respective related parties, or (z) to the extent required in connection with the preparation or filing of any tax returns or other filings required by applicable law. Notwithstanding the foregoing or any other provision hereof to the contrary, (i) O.M. shall have the right to inform subtenants and other occupants of the Building, purchasers or proposed purchasers of the Premises, lenders or investors or proposed lenders or investors to or in O.M., brokers, attorneys for O.M., building departmental and other comparable governmental officials and such other persons or entities as O.M. may reasonably deem appropriate or necessary, that O.M. and Designs have entered into an agreement pursuant to which O.M. has the right to terminate the Existing Lease and recapture the Premises in accordance with the time periods herein set forth (provided, that, except as permitted above in this Section 13, O.M. shall not disclose the financial terms or other material terms or conditions of this Agreement to any such person or entity), and (ii) neither party shall be liable to the other for any disclosure of any information by any other person or entity which obtained such information from a party hereto in accordance with the terms and conditions of this Section.

14. No obligation or right of any party hereto under this Agreement or any provision of this Agreement shall grant or confer, or be deemed to grant or confer, any rights or benefits to any person which is not a party hereto.

15. This Agreement may be executed in counterparts, all of which executed counterparts shall be considered the same agreement, and the signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart.

[This Space Intentionally Left Blank]

EXECUTED under seal as of the date written above.

O.M. 66 B STREET, LLC, a Delaware
limited liability company

By: O.M. Needham Holding Company,
LLC, a Delaware limited liability
company, its Sole Member

By: /S/ MARSHALL FIELD
Name: Marshall Field V
Title: President

DESIGNS, INC.

By: /S/ DAVID A. LEVIN
Name: DAVID A. LEVIN
President

By: /S/ DENNIS R. HERNREICH
Name: DENNIS HERNREICH
Treasurer

List of Attachments

Annex A - Termination Notice
Annex B - Escrow Agreement
Annex C - O.M. Surrender LC
Annex D - Confirmatory Acknowledgement of Termination
Annex E - Designs Security LC
Annex F - Description of New Lease Premises
Annex G - New Lease
Annex H - Surrender Notice
Annex I - List of Approved Property Inspectors

- - h:\boulger_sean\legal\109167131\agmt_re_leases\11_01_00.doc

(In thousands)	For the		For the	
	three months ended October 28,2000	October 30,1999	nine months ended October 28,2000	October 30,1999

Basic EPS Computation				
Numerator:				
Net Income	\$ 2,891	\$ 2,692	\$ 3,502	\$ 1,294
Denominator:				
Weighted average common shares outstanding	15,935	16,018	16,255	15,997
	-----	-----	-----	-----
Basic EPS:	\$ 0.18	\$ 0.17	\$ 0.22	\$ 0.08
Diluted EPS Computation				
Numerator:				
Net Income	\$ 2,891	\$ 2,692	\$ 3,502	\$ 1,294
Denominator:				
Weighted average common shares outstanding				
Stock options	427	82	199	117
	-----	-----	-----	-----
Diluted weighted average shares outstanding	16,362	16,100	16,454	16,114
Diluted EPS:	\$ 0.18	\$ 0.17	\$ 0.21	\$ 0.08

This Schedule Contains Summary Financial Information Extracted from the Consolidated Balance Sheets of Designs Inc. as of October 28, 2000 and the Consolidated Statements of Operations for the nine months ending October 28, 2000 and is qualified in its entirety by reference to such financial statements.

	1000	
	9-mos	
	FEB-03-2001	
	JAN-30-2000	
	OCT-28-2000	0
		0
		46
		0
		64,047
		67,130
		48,224
		(30,184)
		98,169
44,117		0
0		0
		169
		53,883
98,169		141,659
		141,659
		100,200
		100,200
		34,171
		0
		1,317
		5,971
		2,469
3,502		0
		0
		0
		3,502
		0.22
		0.21