

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 May 3, 1997

Commission File Number 0-15898

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

Delaware

04-2623104

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

66 B Street, Needham, MA

02194

(Address of principal executive offices)

(Zip Code)

(617) 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 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 May 3, 1997
-----	-----
Common	15,621,743 shares

DESIGNS, INC.
CONSOLIDATED BALANCE SHEETS
May 3, 1997, May 4, 1996 and February 1, 1997
(In thousands, except share data)
(Unaudited)

	May 3, 1997	May 4, 1996	February 1, 1997
	-----	-----	-----
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 119	\$ 21,435	\$ 3,390
Short-term investments	-----	-----	5,887
Accounts receivable	467	576	558
Inventories	104,112	64,752	79,958
Deferred income taxes	1,160	922	1,160
Prepaid income taxes	1,019	1,154	---
Pre-opening costs, net	602	492	524
Prepaid expenses	5,757	4,021	4,834
	-----	-----	-----
Total current assets	113,236	93,352	96,311
Property and equipment, net of accumulated depreciation and amortization	40,851	39,281	39,216
Other assets:			

Long-term investments	----	5,665	----
Deferred income taxes	2,700	2,763	2,743
Intangible assets	3,053	2,783	3,078
Other assets	303	850	412
	-----	-----	-----
Total Assets	\$ 160,143	\$ 144,694	\$ 141,760
	=====	=====	=====

LIABILITIES AND STOCKHOLDERS'
EQUITY

Current liabilities:			
Accounts payable	\$ 25,390	\$ 20,170	\$ 12,194
Accrued expenses and other current liabilities	7,779	9,886	7,046
Accrued rent	2,593	2,414	2,398
Income taxes payabl	----	----	1,353
Notes payable (Note 4)	10,600	1,000	1,000
	-----	-----	-----
Total Liabilities	46,362	33,470	23,991
Minority Interest (Note 2)	5,807	6,371	6,724
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, 15,622,000, 15,812,000 and 15,873,000 shares issued at May 3, 1997, May 4, 1996 and February 1, 1997, respectively	159	158	159
Additional paid-in capital	53,371	52,769	53,320
Retained earnings	56,271	51,926	59,393
Treasury stock at cost, 281,000 shares at May 3, 1997 and February 1, 1997	(1,827)	----	(1,827)
Total Stockholders' equity	107,974	104,853	111,045
	-----	-----	-----
Total Liabilities and stockholders' equity	\$ 160,143	\$ 144,694	\$ 141,760
	=====	=====	=====

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

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

	Three Months Ended		Twelve Months Ended	
	May 3, 1997	May 4, 1996	May 3, 1997	May 4, 1996
	-----	-----	-----	-----
Sale	\$ 55,470	\$ 59,336	\$ 285,727	\$ 302,932
Cost of goods sold including occupancy	41,984	43,179	202,169	213,895
	-----	-----	-----	-----
Gross profit	13,486	16,157	83,558	89,037
Expenses:				
Selling, general and administrative	16,055	16,060	65,931	70,991
Depreciation and amortization	2,786	2,484	10,705	7,253
	-----	-----	-----	-----
Total expenses	18,841	18,544	76,636	78,244
	-----	-----	-----	-----
Operating income (loss)	(5,355)	(2,387)	6,922	10,793
Interest expense	151	44	304	218
Interest income	55	318	903	1,438
	-----	-----	-----	-----
Income (loss) before minority interest and income taxes	(5,451)	(2,113)	7,521	12,013
Less minority interest	(16)	(145)	624	140
	-----	-----	-----	-----
Income (loss) before income taxes	(5,435)	(1,968)	6,897	11,873
Provision (benefit) for income taxes	(2,251)	(823)	2,672	4,819
	-----	-----	-----	-----
Net income (loss)	\$ (3,184)	\$ (1,145)	\$ 4,225	\$ 7,054
	=====	=====	=====	=====
Net income per share	\$ (0.20)	\$ (0.07)	\$ 0.27	\$ 0.45
Weighted average shares outstanding	15,606	15,812	15,720	15,778

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

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

	Three Months Ended	
	May 3, 1997	May 4, 1996
Cash flows from operating activities:		
Net loss	\$ (3,184)	\$ (1,145)
Adjustments to reconcile to net cash used for operating activities:		
Depreciation and amortization	2,786	2,484
Minority interest	(16)	(145)
Loss on sale of investments	102	17
Loss/(Gain) from disposal of property and equipment	3	(6)
Changes in operating assets and liabilities:		
Accounts receivable	91	97
Inventories	(24,154)	(6,809)
Prepaid expenses	(1,942)	(53)
Income taxes payable	(1,353)	(1,154)
Accounts payable	13,196	11,985
Accrued expenses and other current liabilities	733	2,002
Accrued rent	195	(172)
Net cash (used for) provided by operating activities	(13,543)	7,101
Cash flows from investing activities:		
Additions to property and equipment	(4,161)	(5,872)
Incurrence of pre-opening costs	(104)	8
Proceeds from disposal of property and equipment	1	8
Sale and maturity of investments	5,785	6,190
Reduction in other assets	51	57
Distributions to joint venture partner	(900)	----
Net cash provided by investing activities	672	391
Cash flows from financing activities:		
Net borrowings under credit facility	9,600	----
Issuance of common stock under option program (1)	----	2
Net cash provided by financing activities	9,600	2
Net increase (decrease) in cash and cash equivalents	(3,271)	7,494
Cash and cash equivalents:		
Beginning of the year	3,390	13,941
End of the quarter	\$ 119	\$ 21,435
	=====	=====

Supplementary Cash Flow Disclosure

Cash paid:		
Interest	\$ 63	\$ 43
Taxes, net	236	199

(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 (consisting only of normal recurring 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 contained in the Company's audited consolidated financial statements for the year ended February 1, 1997. The Company's business has historically 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. Minority Interest

On January 28, 1995, Designs JV Corp., a wholly-owned subsidiary of the Company, entered into a partnership agreement with LDJV Inc. (the "Partnership Agreement") establishing a joint venture to sell Levi's(R) brand jeans and jeans-related products in Original Levi's(R) StoresTM and Levi's(R) Outlet stores. LDJV Inc. is a wholly-owned subsidiary of Levi's Only Stores, Inc., which is a wholly-owned subsidiary of Levi Strauss & Co. The joint venture that was established by the Partnership Agreement is known as The Designs/OLS Partnership (the "OLS Partnership"). The operating results of the OLS Partnership are consolidated with the financial statements of the Company for the three and twelve months ended May 3, 1997. Minority interest at May 3, 1997, represents LDJV Inc.'s 30% interest in the OLS Partnership. During the first quarter of fiscal 1997, the OLS Partnership distributed \$3.0 million in "excess cash" to its partners in accordance with the terms of the Partnership Agreement. The OLS Partnership is also obligated to distribute funds to its partners enabling them to pay taxes associated with the related earnings. No cash distributions were made for this purpose during the first quarters of fiscal 1996 and fiscal 1997.

3. Boston Trading Ltd., Inc. Acquisition

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 principal amount of \$1 million (the "Purchase Note") payable in two equal annual installments through May 2, 1997. In the first quarter of fiscal 1996, the Company asserted rights of indemnification under the Asset Purchase Agreement. In accordance with the Asset Purchase 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. Accordingly, the Company did not make either of the \$500,000 payments of principal due on the Purchase Note on May 2, 1996 and May 2, 1997. The Company paid all interest due through May 2, 1997, in accordance with the terms of the Purchase Note.

4. Credit Facility

On July 24, 1996, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with BayBank, N.A. and State Street Bank and Trust Company under which these banks established a credit facility for the Company. This credit facility, which terminates on June 30, 1999, consists of: (i) a revolving line of credit permitting the Company to borrow up to \$15 million, and (ii) a commercial and trade letters of credit facility under which letters of credit, in aggregate amount up to \$45 million, may be issued for the Company's inventory purchases. Under the revolving line of credit portion of the facility, the Company has the ability to issue standby letters of credit up to \$750,000. Loans made under this portion of the facility bear interest, subject to adjustment, at BayBank, N.A.'s prime rate or LIBOR-based fixed rate. The Company may increase the commercial and trade letters of credit portion of the facility in increments of \$15 million up to a total of \$45 million. Under the Credit Agreement, the Company has agreed not to pay cash dividends on its Common Stock if such payment would cause the Company to be in default of certain financial ratios. To date, the Company has not paid any cash dividends. The terms of the Credit Agreement require the Company to maintain certain net worth, inventory turnover and cash flow ratios. The Company received a written waiver of its non-compliance at May 3, 1997 with the inventory turnover covenant in the Credit Agreement. At May 3, 1997, the Company had outstanding commercial and trade letters of credit totaling approximately \$7.3 million and two outstanding standby letters of credit totaling approximately \$436,000.

5. Joint Venture Credit Agreement

During the third quarter of fiscal 1996 the Company entered into a Credit Agreement (the "OLS Credit Agreement") with the OLS Partnership and Levi's Only Stores, Inc. ("LOS") under which the Company and LOS are committed to make advances to the OLS Partnership in the amount of \$3.5 million and \$1.5 million, respectively. The facility bears interest at BayBank, N.A.'s prime rate and terminates September 30, 1997, unless terminated earlier pursuant to the provisions of the OLS Credit Agreement. This Agreement provides that there will be no unpaid credit advance outstanding on the last day of any fiscal year and for at least 30 consecutive days immediately following the last day of each fiscal year. No advances were outstanding under this facility during the first quarter of fiscal 1997.

6. Subsequent Event

On June 10, 1997, the Company announced that it will re-focus the product mix in its Designs and Boston Trading Co.(SM) stores to one focused on Levi Strauss & Co. and other name brand apparel and accessories. The Company plans to reduce the proportion of private label merchandise in its Designs stores beginning with the 1997 "Back to School" selling season and increase Levi Strauss & Co. and other name brand products to approximately 70% of the total merchandise mix. The Company also plans to shift the product mix in its Boston Trading Co.(SM) stores by increasing the proportion of Levi Strauss & Co. and other name brand products in these stores for fiscal 1998. In connection with the re-focused strategy, the Company will close its New York City private label product development office and eliminate positions associated with that office. The Company also announced a headcount freeze in its corporate office and plans not to replace non-essential corporate office positions for the remainder of fiscal 1997. The Company has private label purchase commitments totaling approximately \$12.9 million, at cost, existing for the period from July 1997 through January 1998. At May 3, 1997, the Company had approximately \$15 million, at cost, in private label inventory. Based upon the performance to date of its private label merchandise, the Company anticipates increased markdown activity during the remainder of fiscal 1997 in connection with the sale of excess inventory. The Company plans to satisfy its future private label requirements with open market purchases of selected items that will carry the Boston Traders(R) label.

RESULTS OF OPERATIONS

Sales for the first quarter of fiscal 1997 were \$55.5 million as compared to sales of \$59.3 million in the first quarter of fiscal 1996. Comparable store sales decreased 7 percent for the first quarter as compared to the same period in the prior year. Comparable stores are retail locations that have been in operation for at least one full fiscal year. Of the 154 stores the Company operated as of May 3, 1997, 140 were comparable stores. This decrease in sales was primarily due to sales shortfalls in Levi's(R) brand men's jeans and the poor performance of the Company's private label products.

Gross margin rate (including the costs of occupancy) for the first quarter of fiscal 1997 equaled 24.3 percent of sales as compared with 27.2 percent in the prior year. The decrease was attributable to a decrease in merchandise margin resulting from markdowns associated with the Company's private label products which did not perform as planned, and an increase in occupancy expense as a percentage of sales due to the effect of a lower than anticipated sales base compared to the same period in the prior year.

Selling, general and administrative expenses increased as a percentage of sales to 28.9 percent, compared with 27.1 percent of sales in the prior year. Selling general and administrative expenses totaled \$16.1 million for each of the first quarters of fiscal 1996 and fiscal 1997. Store payroll expense, the largest component of selling, general and administrative expenses, equaled 13.3 percent of sales, compared with 11.3 percent in the prior year. Advertising expense increased 66 percent, or by \$283,000, over the prior year due to the marketing and promotion of the Company's new Boston Trading Co.(SM) stores. These increases were offset by decreases in other store operating expenses as the Company continues to focus on managing and controlling costs.

Depreciation and amortization expense of \$2.8 million for the first quarter of fiscal 1997 represents an increase of 12 percent as compared with depreciation and amortization expense of \$2.5 million for the same period in fiscal 1996 due to the cost of new store openings and remodeled stores. For the rolling 12 month period, depreciation and amortization increased 48 percent, primarily due to capital expenditures associated with the Company's new corporate offices, the timing of store openings as well as upgrades of information and technology systems.

Interest expense was \$151,000 and \$44,000 in the first quarter of fiscal 1997 and fiscal 1996, respectively. On a rolling 12 month basis, interest expense increased to \$304,000 as compared to \$218,000 in the prior comparable period. This increase is primarily attributable to borrowings under the Company's revolving credit facility during the first quarter of fiscal 1997. The Company anticipates that interest expense will continue to increase in fiscal 1997 as a result of borrowings under the Company's credit facility.

Interest income for the first quarter of fiscal 1997 was \$55,000 compared to \$318,000 in fiscal year 1996. For the rolling 12 month period, interest income of \$903,000 decreased by 37 percent from \$1.4 million in the prior comparable period. The decrease in interest income is attributable to a lower average investment balance compared to the same periods last year. The Company anticipates that interest income will continue to decline in fiscal 1997 reflecting further declines in investment balances.

Net loss for the first quarter of fiscal year 1997 equaled (\$3.2) million or (\$.20) per share, as compared with a net loss of (\$1.1) million, or (\$.07) per share in the first quarter of fiscal 1996. Net income, on a rolling 12 month basis, was \$4.2 million or \$0.27 per share in the 12 month period, as compared with \$7.1 million, or \$0.45 per share in the prior comparable period.

SEASONALITY

The Company's business is seasonal, reflecting increased consumer buying in the "Fall" and "Holiday" seasons. Historically, the second half of each fiscal year provides a greater portion of the Company's annual sales and operating income.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs are for operating expenses, including cash outlays associated with inventory purchases, the development of the Company's private label product line and capital expenditures for new and remodeled stores, information technology and acquisitions.

On June 10, 1997, the Company announced that it will re-focus the product mix in its Designs and Boston Trading Co.(SM) stores to one focused on Levi Strauss & Co. and other name brand apparel and accessories. The Company plans to reduce the proportion of private label merchandise in its Designs stores beginning with the 1997 "Back to School" selling season and increase Levi Strauss & Co. and other name brand products to approximately 70% of the total merchandise mix. The Company also plans to shift the product mix in its Boston Trading Co.(SM) stores by increasing the proportion of Levi Strauss & Co. and other name brand products in these stores for fiscal 1998. In connection with the re-focused strategy, the Company will close its New York City private label product development office and eliminate positions associated with that office. The Company also announced a headcount freeze in its corporate office and plans not to replace non-essential corporate office positions for the remainder of fiscal 1997. The Company plans to satisfy its future private label requirements with open market purchases of selected items that will carry the Boston Traders(R) label.

WORKING CAPITAL AND CASH FLOWS

To date, the Company has financed its working capital requirements and expansion program with cash flow from operations, borrowings and proceeds from Common Stock offerings. Cash used in operations for the first three months of fiscal 1997 was \$13.5 million as compared to cash provided by operations of \$7.1 million for the same period in the prior year. Cash used in operations in the first quarter of fiscal 1997 is primarily attributable to increased purchases for the Levi's(R) Outlet stores, inventory purchases of private label products associated with the opening of Boston Trading Co.(SM) stores, and the timing of other working capital accounts, combined with slower than expected sales of Levi's(R) brand men's jeans and the Company's private label products.

The Company's cash position at May 3, 1997 was approximately \$119,000, compared to \$21.4 million at the end of the first quarter of fiscal 1996. During the first quarter of fiscal 1997, the Company sold its remaining short-term investments of \$5.9 million. As a result of this sale, the Company realized a loss of \$102,300. As described below, at May 3, 1997, the Company had net borrowings outstanding equal to \$9.6 million under its revolving credit facility, compared to no borrowings under this facility at the end of the first quarter of fiscal 1996. The Company anticipates that it will borrow up to a total of \$15 million under the revolving line of credit portion of the credit facility during the second and third quarters of fiscal 1997. The Company also anticipates that the amount of the outstanding letters of credit will decrease during this same period.

The Company's working capital at May 3, 1997 was approximately \$66.9 million, compared to \$59.8 million at May 4, 1996. This increase in working capital was primarily attributable to seasonal inventory purchases. At May 3, 1997, total inventory equaled \$104.1 million, reflecting an increase of 61 percent, or \$39.4 million, as compared to total inventory at the end of the first quarter of fiscal 1996. This increase was primarily due to seasonal inventory purchases described above, and special purchases of Levi's(R) brand products for the Levi's(R) Outlet stores. At the end of the first quarter of fiscal 1997, the Company had approximately \$15 million, at cost, in private label inventory, and purchase commitments totaling approximately \$12.9 million, at cost, existing for the period from July 1997 through January 1998. Based upon the performance to date of its private label merchandise, the Company anticipates increased markdown activity during the remainder of fiscal 1997 in connection with the sale of excess inventory. The Company will satisfy its future private label requirements with open market purchases of selected items that carry the Boston Traders(R) label. The Company continues to evaluate and, within the discretion of management, act upon opportunities to purchase substantial quantities of Levi's(R) brand products for the Levi's(R) Outlet stores.

The Company's trade payables to Levi Strauss & Co., its principal vendor, generally are due 30 days after the date of invoice. The Boston Traders(R) brand product requires the Company to source its own product predominantly with various offshore vendors. To date, payment to these vendors has been through the use of letters of credit, which require payment upon presentation of shipping documents. The Company anticipates that the use of this payment method will be proportional to its Boston Traders(R) brand product purchases.

On July 24, 1996, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with BayBank, N.A. and State Street Bank and Trust Company. The facility, which terminates June 30, 1999, consists of: (i) a revolving line of credit permitting the Company to borrow up to \$15 million, and (ii) a commercial and trade letters of credit facility under which letters of credit, in aggregate amount up to \$45 million, may be issued for the Company's inventory purchases. Under the revolving line

of credit portion of the facility, the Company has the ability to issue standby letters of credit up to \$750,000. Loans made under this portion of the facility bear interest, subject to adjustment, at BayBank, N.A.'s prime rate or LIBOR-based fixed rate. The Company may increase the commercial and trade letters of credit portion of the facility in increments of \$15 million up to a total of \$45 million. The terms of the Credit Agreement require the Company to maintain certain net worth, inventory turnover and cash flow ratios. The Company received a written waiver of its non-compliance at May 3, 1997, with the inventory turnover covenant in the Credit Agreement. At the end of the first quarter, the Company had outstanding letters of credit totaling approximately \$7.3 million and two outstanding standby letters of credit totaling approximately \$436,000.

On January 28, 1995, Designs JV Corp., a wholly-owned subsidiary of the Company, and a subsidiary of Levi's Only Stores, Inc., a wholly-owned subsidiary of Levi Strauss & Co., entered into a partnership agreement (the "Partnership Agreement") to sell Levi's(R) brand jeans and jeans-related products. The joint venture that was established by the Partnership Agreement is known as The Designs/OLS Partnership (the "OLS Partnership"). The term of the joint venture is ten years; however, the Partnership Agreement contains certain exit rights that enable either partner to buy or sell its interest in the joint venture after five years. The Company previously announced that the OLS Partnership may open up to thirty-five to fifty Original Levi's(R) Stores™ and Levi's(R) Outlet stores throughout eleven Northeast states and the District of Columbia throughout the end of fiscal 1999. At the end of the first quarter of fiscal 1997 there were eleven Original Levi's(R) Stores and eleven Levi's(R) Outlet stores.

During the first quarter of fiscal 1997, the OLS Partnership distributed \$3.0 million in "excess cash" to its partners in accordance with the terms of the Partnership Agreement. It is the intention of the partners in the joint venture that additional working capital for the joint venture's future expansion will come from its operations, capital contributions, loans from the partners and borrowings from third parties.

During the third quarter of fiscal 1996, the Company entered into a Credit Agreement (the "OLS Credit Agreement") with the OLS Partnership and Levi's Only Stores, Inc. under which the Company and Levi's Only Stores, Inc. are committed to make advances to the OLS Partnership in amounts up to \$3.5 million and \$1.5 million, respectively. This credit facility bears interest at BayBank, N.A.'s prime rate and terminates on September 30, 1997, unless terminated earlier pursuant to other provisions of the OLS Credit Agreement. The OLS Credit Agreement also provides that there may not be credit advances outstanding on the last day of any fiscal year and for at least 30 consecutive days immediately following the last day of each fiscal year. There were no borrowings under this facility through May 3, 1997. The Company has not established a cash reserve to fund this commitment.

CAPITAL EXPENDITURES

During the first quarter of fiscal 1997, the Company opened five new Boston Trading Co.(SM) stores and remodeled one Levi's(R) Outlet by Designs store. Total cash outlays of \$4.1 million and \$5.9 million during the first quarters of fiscal 1997 and fiscal 1996, respectively, represent the costs of new and remodeled stores as well as corporate office capital spending during the periods. As of the quarter end, the Company had closed one Designs store for which the lease had expired. Subsequent to the quarter ended May 3, 1997, the OLS Partnership opened one new Levi's(R) Outlet store.

On May 2, 1995, the Company acquired certain assets of Boston Trading Ltd., Inc. ("Boston Trading") in accordance with the terms of an 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 principal amount of \$1.0 million (the "Purchase Note"). The principal amount of the Purchase Note was payable in two equal installments through May 1997. In the first quarter of fiscal 1996, the Company asserted certain indemnification rights under the Asset Purchase Agreement. In accordance with the Asset Purchase 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. Accordingly, the Company did not make either of the \$500,000 payments of principal on the Purchase Note that were due on May 2, 1996 and May 2, 1997. The Company has paid all interest in accordance with the terms of the Purchase Note. Any portion of the principal amount of the Purchase Note which may be paid by the Company depends upon whether the Company's claims are satisfied by Boston Trading and its stockholders.

In the first quarter of fiscal 1997, the Company introduced a retail store concept featuring its Boston Traders(R) brand under the name "Boston Trading Co." These stores are located in upscale malls and one urban location. The Company recently announced its plans to increase the percentage of Levi

Strauss & Co. and other brand name products in these stores for fiscal 1998. The Company also announced that it plans to satisfy its future private label requirements with open market purchases of selected items that will carry the Boston Traders(R) label. Barring any unforeseen circumstances, the Company plans to open one additional Boston Trading Co.(SM) store in fiscal 1997.

In November 1996, the Company and Levi Strauss & Co. entered into a trademark license agreement (the "Outlet License Agreement") which provides the terms upon which the Company is permitted to use the Levi Strauss & Co. batwing trademark in connection with the operations of the Company's Levi's(R) Outlet by Designs stores. The Outlet License Agreement authorizes the Company, subject to certain terms and conditions, to operate the Levi's(R) Outlet by Designs stores using the Levi's(R) batwing trademark in 25 states in the eastern portion of the United States. Subject to certain default provisions, the term of the Outlet License Agreement will expire on July 31, 2001, and the license for any store will be for a period co-terminous with the lease term for such store (including extension options), unless Levi Strauss & Co. otherwise extends the term of the license for that particular store. Levi Strauss & Co. has no obligation to extend the license beyond the initial term described above. The leases (including extension options) relating to approximately one-half of the Levi's(R) Outlet by Designs stores open at May 3, 1997 expire in or prior to fiscal 2009 and all, except for four such leases, expire in or prior to fiscal 2011.

The Company expects that cash flow from operations and short-term borrowings will enable it to finance its current working capital, remodeling and expansion requirements during the remainder of the fiscal year.

The Company continually evaluates discretionary investments in new projects that may complement its existing business. Further, as leases expire, the Company continues to evaluate the performance of its existing stores. As a result of this process, certain store locations could be closed or relocated within a center in the future.

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 the Company's Current Report on Form 8-K, previously filed with the United States Securities and Exchange Commission on April 22, 1997, which identifies certain risks and uncertainties that may have an impact on future earnings and the direction of the Company.

Part II. Other Information

ITEM 1. Legal Proceedings

The Company is a party to 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 3. Default Upon Senior Securities

As discussed above, the Credit Agreement requires the Company to maintain certain net worth, inventory turnover and cash flow ratios. The Company received a written waiver of its non-compliance at May 3, 1997 with the inventory turnover covenant in the Credit Agreement.

ITEM 6. Exhibits and Reports on Form 8-K

A. Reports on Form 8-K:

The Company reported under item 5 on Form 8-K, dated April 22, 1997, 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.

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 establishing Series A Junior Participating Cumulative Preferred Stock dated May 1, 1995 (included as Exhibit 3.2 to the Company's Annual Report on Form 10-K dated May 1, 1996, and incorporated herein by reference). *
- 3.4 By-Laws of the Company, as amended (included as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated December 12, 1995, and incorporated herein by reference). *
- 4.1 Shareholder Rights Agreement dated as of May 1, 1995 between the Company and its transfer agent (included as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 1, 1995, and incorporated herein by reference). *
- 10.1 1987 Incentive Stock Option Plan, as amended (included as Exhibit 10.1 to the Company's Annual Report on Form 10-K dated April 29, 1993, and incorporated herein by reference). *
- 10.2 1987 Non-Qualified Stock Option Plan, as amended (included as Exhibit 10.2 to the Company's Annual Report on Form 10-K dated April 29, 1993, and incorporated by herein by reference). *
- 10.3 1992 Stock Incentive Plan, as amended (included as Exhibit A to the Company's definitive proxy statement dated May 9, 1997, and incorporated by reference). *
- 10.4 Senior Executive Incentive Plan effective beginning with the fiscal year ended February 1, 1997 (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q dated September 17, 1996, and incorporated herein by reference). *
- 10.5 Trademark License Agreement between the Company and Levi Strauss & Co. dated as of November 15, 1996 (included as Exhibit 10.5 to the Company's Annual Report on Form 10-K dated May 1, 1997, and incorporated herein by reference). *
- 10.6 Amended and Restated Credit Agreement among the Company, BayBank, N.A., and State Street Bank and Trust Company dated as of July 24, 1996 (included as Exhibit 10.1 to the Company's Current Report on

- Form 8-K dated August 7, 1996, and incorporated herein by reference). *
- 10.7 Consulting Agreement between the Company and Stanley I. Berger dated December 21, 1994 (included as Exhibit 10.7 to the Company's Annual Report on Form 10-K dated April 28, 1995, and incorporated herein by reference). *
- 10.8 Participation Agreement among Designs JV Corp. (the "Designs Partner"), the Company, LDJV Inc. (the "LOS Partner"), Levi's Only Stores, Inc. ("LOS"), Levi Strauss & Co. ("LS&CO") and Levi Strauss Associates Inc. ("LSAI") dated January 28, 1995 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.9 Partnership Agreement of The Designs/OLS Partnership (the "OLS Partnership") between the LOS Partner and the Designs Partner dated January 28, 1995 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.10 Glossary executed by the Designs Partner, the Company, the LOS Partner, LOS, LS&CO, LSAI and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.11 Sublicense Agreement between LOS and the LOS Partner dated January 28, 1995 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.12 Sublicense Agreement between the LOS Partner and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.13 License Agreement between the Company and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.6 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.14 Administrative Services Agreement between the Company and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.7 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.15 Credit Agreement among the Company, LOS and the OLS Partnership dated as of October 1, 1996 (included as Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q dated December 17, 1996, and incorporated herein by reference). *
- 10.16 Asset Purchase Agreement between LOS and the Company relating to the sale 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). *
- 10.17 Asset Purchase Agreement between LOS and the Company relating to the sale of a store located in Cambridge Massachusetts dated January 28, 1995 (included as Exhibit 10.10 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.18 Asset Purchase Agreement among Boston Trading Ltd., Inc., Designs Acquisition Corp., the Company and others dated April 21, 1995 (included as 10.16 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference). *
- 10.19 Non-Negotiable Promissory Note between the Company and Atlantic Harbor, Inc., formerly known as Boston Trading Ltd., Inc., dated May 2, 1995 (included as 10.17 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference). *
- 10.20 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). *
- 10.21 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).

*

10.22 Employment Agreement dated as of October 16, 1995 between the Company and Mark S. Lisnow (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference).

*

10.23 Employment Agreement dated as of May 9, 1997 between the Company and Carolyn R. Faulkner.

10.24 Employment Separation Agreement dated as of August 7, 1996 between the Company and William D. Richins (included as Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q dated September 17, 1996, and incorporated herein by reference).

*

11 Statement re: computation of per share earnings.

27 Financial Data Schedule.

99.1 Report of the Company dated April 22, 1997 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 (included as Exhibit 99 to the Company's Annual Report on Form 10-K dated May 1, 1997, and incorporated herein by reference).

*

99.2 Press release of the Company dated June 10, 1997.

* 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.

By: /s/ JOEL H. REICHMAN

Joel H. Reichman
President and
Chief Executive Officer

Dated: June 17, 1997

EMPLOYMENT AGREEMENT

AGREEMENT made as of May 9, 1997, between DESIGNS, INC., a Delaware corporation with an office at 66 B Street, Needham, Massachusetts, 02194 (the "Company"), and CAROLYN FAULKNER, residing at 252 Main Street, West Newbury, Massachusetts 01985 (the "Executive").

W I T N E S S E T H:

WHEREAS, the Company desires that Executive be employed to serve in a senior executive capacity with the Company, and Executive desires to be so employed by the Company, upon the terms and conditions herein set forth.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations and covenants herein contained, the parties hereto agree as follows:

1. EMPLOYMENT

The Company hereby employs Executive and Executive hereby accepts such employment, subject to the terms and condition herein set forth. Executive shall hold the office of Vice President, Chief Financial Officer reporting to the Chief Executive Officer of the Company (the "Chief Executive Officer").

2. TERM

The initial term of employment under this Agreement shall begin on the date hereof (the "Employment Date") and shall continue for a period of three (3) years from that date, subject to prior termination in accordance with the terms hereof. Thereafter, this Agreement shall automatically be renewed for successive one year terms unless either party shall give the other ninety (90) days prior written notice of its intent not to renew this Agreement.

3. COMPENSATION

As compensation for the employment services to be rendered by Executive hereunder, including all services as an officer of the Company and any of its subsidiaries and affiliates, the Company agrees to pay, or cause to be paid, to Executive, and Executive agrees to accept, payable in equal installments in accordance with Company practice, an initial annual salary of \$210,000. Executive's annual salary hereunder for the remaining years of employment shall be determined by the Compensation Committee of the Board of Directors in its sole discretion; provided, however, that Executive's salary shall be increased each year effective as of the first day of the Company's fiscal year and commencing with the beginning of fiscal 1998, by at least the percentage increase, if any, in the cost of living shown on the Consumer Price Index for all

items in the Boston, Massachusetts Area (published by the Bureau of Labor Statistics of the United States Department of Labor) ("CPI) between the first day of the immediately preceding calendar year and the last day of that same year, first such adjustment to occur on January 1, 1998. By way of example, on January 1, 1998 the adjustment will be computed by multiplying the Executive's base salary in effect during fiscal 1997 by the percentage increase in the CPI from January 1, 1997 to February 1, 1998. In addition, Executive shall be entitled to bonuses from time to time in such amounts as may be determined by the Compensation Committee of the Board of Directors in its sole discretion.

4. EXPENSES

The Company shall pay or reimburse Executive, upon presentment of suitable vouchers, for all reasonable business and travel expenses which may be incurred or paid by Executive in connection with her employment hereunder. Executive shall comply with such restrictions and shall keep such records as the Company may deem necessary to meet the requirements of the Internal Revenue

Code of 1986, as amended from time to time, and regulations promulgated thereunder.

5. OTHER BENEFITS

(a) Executive shall be entitled to such vacations and to participate in and receive any other benefits customarily provided by the Company to its senior management personnel (including any bonus, profit sharing, pension, 401(k), short and long-term disability insurance, hospital, major medical insurance and group life insurance plans in accordance with the terms of such plans) and including stock option and/or stock purchase plans, all as determined from time to time by the Compensation Committee of the Board of Directors of the Company.

(b) The Company shall, during the term of Executive's employment hereunder, provide Executive with a full size automobile for her use in performing her employment duties and obligations hereunder, including maintenance of and fuel for such automobile.

6. DUTIES

(a) Executive shall perform such duties and functions as the Chief Executive Officer and the Board of Directors of the Company shall from time to time determine and Executive shall comply in the performance of her duties with the policies of, and be subject to the direction of, the Chief Executive Officer and/or the Board of Directors. Executive shall serve as an officer of the Company without further compensation.

At the request of the Chief Executive Officer and/or the Board of Directors, Executive shall serve, without further compensation, as an executive officer of any subsidiary or affiliate of the

Company and, in the performance of such duties, Executive shall comply with the policies of the Board of Directors of each such subsidiary or affiliate.

(b) During the term of this Agreement, Executive shall devote substantially all of her time and attention, vacation time and absences for sickness excepted, to the business of the Company, as necessary to fulfill her duties. Executive shall perform the duties assigned to him with fidelity and to the best of her ability. Notwithstanding anything herein to the contrary, Executive may engage in other activities so long as such activities do not unreasonably interfere with Executive's performance of her duties hereunder and do not violate Section 9 hereof.

(c) Nothing in this Section 6 or elsewhere in this Agreement shall be construed to prevent Executive from investing or trading in nonconflicting investments as he sees fit for her own account, including real estate, stocks, bonds, securities, commodities or other forms of investments.

(d) The principal location at which the Executive shall perform her duties hereunder shall be at the Company's offices in Needham, Massachusetts or at such other location as may be designated from time to time by the Board of Directors of the Company; provided that if the principal location of Executive's duties is transferred from Needham, Massachusetts, the new principal location of Executive's duties shall not be transferred beyond a 15-mile radius of Needham, Massachusetts without Executive's consent. Notwithstanding, the foregoing, Executive shall perform such services at such other locations as may be required for the proper performance of her duties hereunder, and Executive recognizes that such duties may involve travel.

7. TERMINATION OF EMPLOYMENT; EFFECT OF TERMINATION

(a) Executive's employment hereunder may be terminated at any time upon written notice from the Company to Executive:

- (i) upon the determination by the Chief Executive Officer and the Board of Directors that Executive's performance of her duties has not been fully satisfactory for any reason which would not constitute justifiable cause (as hereinafter defined) upon thirty (30) days' prior written notice to Executive; or
- (ii) upon the determination by the Chief Executive Officer and the Board of Directors that there is justifiable cause (as hereinafter defined) for such termination upon ten (10) days' prior written notice to Executive.

(b) Executive's employment shall terminate upon:

- (i) the death of Executive; or

(ii) the "disability" of Executive (as hereinafter defined pursuant to subsection (c) herein) pursuant to subsection (f) hereof.

(c) For the purposes of this Agreement, the term "disability" shall mean the inability of Executive, due to illness, accident or any other physical or mental incapacity, substantially to perform her duties for a period of three (3) consecutive months or for a total of six (6) months (whether or not consecutive) in any twelve (12) month period during the term of this Agreement, as reasonably determined by the Chief Executive Officer and the Board of Directors of the Company after examination of Executive by an independent physician reasonably acceptable to Executive.

(d) For the purposes hereof, the term "justifiable cause" shall mean and be limited to: any repeated willful failure or refusal to perform any of the duties pursuant to this Agreement where such conduct shall not have ceased within 30 days following written warning from the Company; Executive's conviction (which, through lapse of time or otherwise, is not subject to appeal) of any crime or offense involving money or other property of the Company or its subsidiaries or affiliates or which constitutes a felony in the jurisdiction involved; Executive's performance of any act or her failure to act, for which if Executive were prosecuted and convicted, a crime or offense involving money or property of the Company or its subsidiaries or affiliates, or which would constitute a felony in the jurisdiction involved, would have occurred; any unauthorized disclosure by Executive to any person, firm or corporation other than the Company, its subsidiaries or affiliates and their respective directors, officers and employees (or other persons fulfilling similar functions), of any confidential information or trade secret of the Company or any of its subsidiaries or affiliates; any attempt by Executive to secure any personal profit in connection with the business of the Company or any of its subsidiaries and affiliates; or the engaging by Executive in any business other than the business of the Company and its subsidiaries and affiliates which unreasonably interferes with the performance of her duties hereunder. Upon termination of Executive's employment for justifiable cause, this Agreement shall terminate immediately and Executive shall not be entitled to any amounts or benefits hereunder other than such portion of Executive's annual salary and reimbursement of expenses pursuant to Section 4 hereof as has been accrued through the date of her termination of employment.

(e) If Executive shall die during the term of her employment hereunder, this Agreement shall terminate immediately. In such event, the estate of Executive shall thereupon be entitled to receive such portion of Executive's annual salary and reimbursement of expenses pursuant to Section 4 as has been accrued through the date of her death. If Executive's death shall occur while he is on Company business, the estate of Executive shall be entitled to receive, in addition to the other amounts set forth in this subsection (e), an amount equal to one-half her then annual salary.

(f) Upon Executive's "disability", the Company shall have the right to terminate Executive's employment. Notwithstanding any inability to perform her duties,

Executive shall be entitled to receive her compensation (including bonus, if any) and reimbursement of expenses pursuant to Section 4 as provided herein until he begins to receive long-term disability insurance benefits under the policy provided by the Company pursuant to Section 5 hereof. Any termination pursuant to this subsection (f) shall be effective on the later of (i) the date 30 days after which Executive shall have received written notice of the Company's election to terminate or (ii) the date he begins to receive long-term disability insurance benefits under the policy provided by the Company pursuant to Section 5 hereof.

(g) Notwithstanding any provision to the contrary contained herein, in the event that Executive's employment is terminated by the Company at any time for any reason other than justifiable cause, disability or death, or in the event the Company shall fail to renew this Agreement at any time within two years following the effective date of a Change in Control of the Company, the Company shall upon such termination, immediately pay (i) Executive, in a lump sum, an amount equal to the greater of (1) one-twelfth of the Executive's then annual salary multiplied by the number of months in the remaining term of this Agreement or (2) a sum equal to her then annual salary multiplied by two years (such period being hereinafter referred to as the "Severance Period"), which amount shall be in lieu of any and all other payments due and owing to the Executive under the terms of this Agreement (other than any payments constituting reimbursement of expenses pursuant to Section 4 hereof), and (ii) continue to allow Executive to participate, at the Company's expense, in the Company's health insurance and disability insurance programs, to the extent permitted under such programs, during the Severance Period (collectively, the "Severance Payments"). For purposes of this Agreement, a "Change in Control of the Company" shall be deemed to occur if (i) there shall be consummated (x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the stockholders of the Company shall approve any plan or proposal for liquidation or dissolution of the Company, or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 40% or more of the Company's outstanding Common Stock other than pursuant to a plan or arrangement entered into by such person and the Company, or (iv) during any period of two consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors of the Company shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

(h) Notwithstanding any provision to the contrary contained herein, in the event the Company elects not to renew this Agreement (other than within two years following a change in Control of the Company, which is covered in Section 7(g) above) the Company will

pay Executive a severance payment equal to the greater of (i) two months' salary plus 1/6 of Executive's bonus, if any, relating to the most recently completed fiscal year, for each year Executive has been employed by the Company or (ii) one year's annual salary.

(i) Executive may terminate her employment at any time upon 30 days' prior written notice to the Company. Upon Executive's termination of her employment hereunder or her election not to renew this Agreement, this Agreement (other than Sections 4, 7, 9, 10, 11 and 12, which shall survive, if at all, in accordance with their terms) shall terminate, provided however, that Section 9 shall not survive such termination unless the Company pays to Executive during the Severance Period the Severance Payments. In such event, Executive shall be entitled to receive such portion of Executive's annual salary and bonus, if any, as has been accrued to date. Executive shall be entitled to reimbursement of expenses pursuant to Section 4 hereof and to participate in the Company's benefit plans to the extent participation by former employees is required by law or permitted by such plans, with the expense of such participation to be as specified in such plans for former employees.

(j) If, in connection with a change of ownership or control of the Company or a change in ownership of a substantial portion of the assets of the Company (all within the meaning of Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code")), an excise tax is payable by Executive under Section 4999 of the Code, then the Company will pay to the Executive additional compensation which will be sufficient to enable Executive to pay such excise tax as well as the income tax and excise tax on such additional compensation, such that, after the payment of income and excise taxes, Executive is in the same economic position in which he would have been if the provisions of Section 4999 of the Code had not been applicable. The additional compensation required by this Section 7(j) will be paid to Executive promptly after the date or dates on which the amount of such additional compensation is determinable, in whole or in part.

(k) Upon the resignation of this Executive Officer in any capacity that resignation will be deemed to be a resignation from all offices and positions that that person holds with respect to the Company and any of its subsidiaries and affiliates.

8. REPRESENTATION AND AGREEMENTS OF EXECUTIVE

(a) Executive represents and warrants that he is free to enter into this Agreement and to perform the duties required hereunder, and that there are no employment contracts or understandings, restrictive covenants or other restrictions, whether written or oral, preventing the performance of her duties hereunder.

(b) Executive agrees to submit to a medical examination and to cooperate and supply such other information and documents as may be required by any insurance company in connection with the Company's obtaining life insurance on the life of Executive, and any other type of insurance or fringe benefit as the Company shall determine from time to time to obtain.

9. NON-COMPETITION

(a) Executive agrees that during her employment by the Company and during the one year period following the termination of Executive's employment hereunder, (the Non-Competitive Period"), Executive shall not, directly or indirectly, as owner, partner, joint venturer, stockholder, employee, broker, agent, principal, trustee, corporate officer, director, licensor, or in any capacity whatsoever engage in, become financially interested in, be employed by, render any consultation or business advice with respect to, or have any connection with, any business which is competitive with, products or services of the Company or any of its subsidiaries and affiliates, in any geographic area in the United States of America where, at the time of the termination of her employment hereunder, the business of the Company or any of its subsidiaries and affiliates was being conducted or was proposed to be conducted in any manner whatsoever; provided, however, that Executive may own any securities of any corporation which is engaged in such business and is publicly owned and traded but in an amount not to exceed at any one time one percent (1%) of any class of stock or securities of such corporation. In addition, Executive shall not notify directly or indirectly, during the Non-Competitive Period, request or cause any suppliers or customers with whom the Company or any of its subsidiaries and affiliates has a business relationship to cancel or terminate any such business relationship with the Company or any of its subsidiaries and affiliates of solicit, interfere with or entice from the Company any employee (or former employee) of the Company.

(b) If any portion of the restrictions set forth in this Section 9 should, for any reason whatsoever, be declared invalid by a court of competent jurisdiction, the validity or enforceability of the remainder of such restrictions shall not thereby be adversely affected.

(c) Executive acknowledges that the Company conducts business throughout the United States, that its sales and marketing prospects are for continued expansion throughout the United States and that, therefore, the territorial and time limitations set forth in this Section 9 are reasonable and properly required for the adequate protection of the business of the Company and its subsidiaries and affiliates. In the event any such territorial or time limitation is deemed to be unreasonable by a court of competent jurisdiction, Executive agrees to the reduction of the territorial or time limitation to the area or period which such court shall deem reasonable.

(d) The existence of any claim or cause of action by Executive against the Company or any subsidiary or affiliate shall not constitute a defense to the enforcement by the Company or any subsidiary or affiliate of the foregoing restrictive covenants, but such claim or cause of action shall be litigated separately.

(e) In the event Executive's employment with the Company terminates for any reason other than (i) the Company's failure to renew this Agreement or (ii) termination by the Company within two years following a Change in Control of the Company, the Company and Executive agree that in consideration of the severance payment made to Executive, Executive shall be available during the Non-Competitive Period to advise and consult with the Board

of Directors, the President and other officers of the Company and its subsidiaries and affiliates with respect to the affairs of the Company and its subsidiaries and affiliates on a part-time basis, in response to requests for such advisory and consulting services by the Board of Directors, or other officers of the Company or its subsidiaries and affiliates, subject to the conditions that (i) such services shall be performed within the United States of America, (ii) Executive shall not be required to devote a major portion of her time to such services, (iii) such services shall not unreasonably interfere with the performance of other employment or consulting duties Executive may have, (iv) Executive shall not be required to perform such services during usual vacation periods and reasonable periods of illness or other incapacitation, (v) such services shall be performed at times and places as shall be chosen by Executive, and which will result in the least inconvenience to Executive, and (vi) all other provisions of this Section 9 shall apply. The Company shall reimburse Executive for actual out-of-pocket expenses incurred in rendering the services performed by Executive upon the request of the Board of Directors, or other officers of the Company or its subsidiaries or affiliates, payable at the end of each month during such period. Notwithstanding the foregoing, in the event that Executive seeks full-time employment with a third party and such third party will not accept Executive's services for as long as he is committed under this subsection (e) to provide consulting services to the Company, then if the Board of Directors of the Company determines in its reasonable discretion that Executive's employment with the third party will not cause him to breach the provisions of Section 9 of this Agreement (other than this subsection (e)) and Executive provides the Board of Directors with a letter signed by the third party stating that such third party will not accept Executive's services as described above, the provisions of this subsection (e) shall immediately terminate and be of no further force or effect.

(f) Notwithstanding anything herein to the contrary, this Section 9 shall automatically terminate if the Company elects not to renew this Agreement, if the Company terminates Executive's employment within two years following the effective date of a Change in Control of the Company, or if the Company fails to make any payments due to Executive under Sections 7(g), 7(h), 7(i) or 9(e).

10. INVENTIONS AND DISCOVERIES

(a) Upon execution of this Agreement and thereafter Executive shall promptly and fully disclose to the Company, and with all necessary detail for a complete understanding of the same, all existing and future developments, know-how, discoveries, inventions, improvements, concepts, ideas, writings, formulae, processes and Methods (whether copyrightable, patentable or otherwise) made, received, conceived, acquired or written during working hours, or otherwise, by Executive (whether or not at the request or upon the suggestion of the Company) during the period of her employment with, or rendering of advisory or consulting services to, the Company or any of its subsidiaries and affiliates, solely or jointly with others in or relating to any activities of the Company or its subsidiaries and affiliates known to him as a consequence of her employment or the rendering of advisory and consulting services hereunder (collectively the "Subject Matter").

(b) Executive hereby assigns and transfers, and agrees to assign and transfer, to the Company) all her rights, title and interest in and to the Subject Matter, and Executive further agrees to deliver to the Company any and all drawings, notes, specifications and data relating to the Subject Matter, and to execute, acknowledge and deliver all such further papers, including applications for copyrights or patents, as may be necessary to obtain copyrights and patents for any thereof in any and all countries and to vest title thereto to the Company. Executive shall assist the Company in obtaining such copyrights or patents during the term of this Agreement, and any time thereafter on reasonable notice and at mutually convenient times, and Executive agrees to testify in any prosecution or litigation involving any of the Subject Matter; provided, however, that Executive shall be compensated in a timely manner at the rate of \$1,500 per day (or portion thereof), plus out-of-pocket expenses incurred in rendering such assistance or giving or preparing to give such testimony if it is required after the Severance Period.

11. NON-DISCLOSURE OF CONFIDENTIAL INFORMATION

(a) Executive shall not, during the term of this Agreement, or at any time following termination of this Agreement, directly or indirectly, disclose or permit to be known (other than as is required in the regular course of her duties (including without limitation disclosures to the Company's advisors and consultants) or is required by law (in which case Executive shall give the Company prior written notice of such required disclosure) or with the prior written consent of the Board of Directors of the Company), to any person, firm or corporation, any confidential information acquired by him during the course of, or as an incident to, her employment or the rendering of her advisory or consulting services hereunder, relating to the Company or any of its subsidiaries and affiliates, the directors of the Company or its subsidiaries and affiliates, any client of the Company or any of its subsidiaries and affiliates, or any corporation, partnership or other entity owned or controlled, directly or indirectly, by any of the foregoing, or in which any of the foregoing has a beneficial interest, including, but not limited to, the business affairs of each of the foregoing. Such confidential information shall include, but shall not be limited to, proprietary technology, trade secrets, patented processes, research and development data, know-how, market studies and forecasts, competitive analyses, pricing policies, employee lists, personnel policies, the substance of agreements with customers, suppliers and others, marketing or dealership arrangements, servicing and training programs and arrangements, customer lists and any other documents embodying such confidential information. This confidentiality obligation shall not apply to any confidential information which thereafter becomes publicly available other than pursuant to a breach of this Section 11(a) by Executive.

(b) All information and documents relating to the Company and its affiliates as hereinabove described (or other business affairs) shall be the exclusive property of the Company, and Executive shall use commercially reasonable best efforts to prevent any publication or disclosure thereof. Upon termination of Executive's employment with the Company, all documents, records, reports, writings and other similar documents containing confidential information, including copies thereof then in Executive's possession or control shall be returned and left with the Company.

12. SPECIFIC PERFORMANCE

Executive agrees that if he breaches, or threatens to commit a breach of, any of the provisions of Sections 9, 10 or 11 (the "Restrictive Covenants"), the Company shall have, in addition to, and not in lieu of, any other rights and remedies available to the Company under law and in equity, the right to have the Restrictive Covenants specifically enforced by a court of competent jurisdiction, it being agreed that any breach or threatened breach of the Restrictive Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy to the Company. Notwithstanding the foregoing, nothing herein shall constitute a waiver by Executive of her right to contest whether a breach or threatened breach of any Restrictive Covenant has occurred.

13. AMENDMENT OR ALTERATION

No amendment or alteration of the terms of this Agreement shall be valid unless made in writing and signed by both of the parties hereto.

14. GOVERNING LAW

This Agreement 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.

15. SEVERABILITY

The holding of any provision of this Agreement to be invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Agreement, which shall remain in full force and effect.

16. NOTICES

Any notices required or permitted to be given hereunder shall be sufficient if in writing, and if delivered by hand or courier, or sent by certified mail, return receipt requested, to the addresses set forth above or such other address as either party may from time to time designate in writing to the other, and shall be deemed given as of the date of the delivery or at the expiration of three days in the event of a mailing.

17. WAIVER OR BREACH

It is agreed that a waiver by either party of a breach of any provision of this Agreement shall not operate, or be construed as a waiver of any subsequent breach by that same party.

18. ENTIRE AGREEMENT AND BINDING EFFECT

This Agreement contains the entire agreement of the parties with respect to the subject matter hereof, supersedes all prior agreements, both written and oral, between the parties with respect to the subject matter hereof, and shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, heirs, distributors, successors and assigns.

19. SURVIVAL.

Except as otherwise expressly provided herein, the termination of Executive's employment hereunder or the expiration of this Agreement shall not affect the enforceability of Sections 4, 7, 9, 10, 11 and 12 hereof.

20. FURTHER ASSURANCES

The parties agree to execute and deliver all such further documents, agreements and instruments and take such other and further action as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

21. HEADINGS

The Section headings appearing in this Agreement are for the purposes of easy reference and shall not be considered a part of this Agreement or in any way modify, demand or affect its provisions.

22. COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, under seal, as of the date and year first above written.

DESIGNS, INC.

By: /s/ SCOTT N. SEMEL

Scott N. Semel
Executive Vice President

/s/ CAROLYN FAULKNER

Carolyn Faulkner

Exhibit 11. Statement Re: Computation of Per Share Earnings

	Three Months Ended		Twelve Months Ended	
	5/3/97	5/4/96	5/3/97	5/4/96
	(In thousands, except for per share data)			
Net (loss) income	\$(3,184)	\$(1,145)	\$4,225	\$7,054
Weighted average shares outstanding during the period	15,606	15,812	15,720	15,778
Net (loss) income per common share	\$(0.20)	\$(0.07)	\$0.27	\$0.45

This Schedule contains summary financial information extracted from the Consolidated Balance Sheets of Designs, Inc. as of May 3, 1997, May 4, 1996 and February 1, 1997 and the Consolidated Statements of Income for the three months and twelve months ending May 3, 1997 and May 4, 1996 and is qualified in its entirety by reference to such financial statements.

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3-MOS	
JAN-31-1998	FEB-02-1997
MAY-03-1997	
	119
0	
467	
0	
104,112	
113,236	76,132
35,281	
160,143	
46,362	0
0	
	0
	159
160,143	107,815
	55,470
55,470	
	41,984
41,984	
18,841	
0	
151	
(5,435)	
2,251	
(3,184)	
0	
0	
	0
(3,184)	
(0.20)	
(0.20)	

FOR IMMEDIATE RELEASE

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Designs, Inc.
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DESIGNS, INC. ANNOUNCES RETURN TO BRANDS AND PRIVATE LABEL
OVERHEAD REDUCTIONS

(Needham, MA., June 10, 1997) -- Designs, Inc. (NASDAQ: DESI), operator of specialty retail apparel stores, today announced a series of strategic and overhead reduction initiatives associated with a refocused business strategy. These initiatives are intended to result in overhead savings of approximately \$1.5 million in 1997 (exclusive of severance, benefits, and other related costs) and at least \$3.0 million in 1998.

REFOCUSED BRAND STRATEGY. The Company will refocus the product mix in its Designs and Boston Trading Co.(SM) stores to one focused on Levi Strauss & Co. and other brand name apparel and accessories.

Joel H. Reichman, Chief Executive Officer said: "We are going back to basics by returning to our core competency of operating specialty retail stores featuring Levi's(R), Dockers(R) and other name brands and will use private label only to fill voids in key product categories not covered by these brands".

The Company plans to increase the mix of Levi's(R), Dockers(R) and other name brands in its Designs stores to approximately 70% beginning with the Back to School selling season. The Company will also shift the product mix in the Boston Trading Co.(SM) stores by immediately increasing the quantity of Levi Strauss & Co. and other brand name products in these stores and plans to greatly reduce the amount of private label merchandise in these stores for 1998. The Company has already started to increase the percentage of Levi Strauss & Co brand products in these stores and is meeting with other name brands whose apparel and accessories will complete its branded casual apparel strategy. The Company's reduced private label requirements will come from open market purchases of selected items that will carry the Boston Traders(R) label.

CLOSING OF NEW YORK PRODUCT DEVELOPMENT OFFICE AND HEADCOUNT FREEZE. In connection with this refocused strategy the Company will close its New York private label product development office and eliminate all headcount associated with that office. The Company has also instituted a headcount freeze in its home office and does not intend to replace open home office positions through the balance of 1997.

(more)

OTHER EXPENSE IMPROVEMENTS. The Company has substantially reduced planned capital expenditures for the balance of 1997 and is reducing previously planned expenses in a number of other areas including advertising, travel, sampling and professional services. In addition, three members of the Company's senior executive team have refused salary increases for 1997.

In announcing these initiatives, Joel H. Reichman, Chief Executive Officer, also said "we have conducted a strategic review of all operating areas with our management team and have identified areas in which we can reduce costs without affecting our customer service standards. With these actions, we are returning to our brand name roots and plan to use the cash generated by these overhead reductions to increase our branded businesses. We will continue our strong commitment to the Levi's(R) and Dockers(R) brands and look forward to continuing our long standing excellent relationship with Levi Strauss & Co."

INVENTORY. The Company is currently reviewing the impact of this refocused strategy on its current and on order Boston Traders(R) inventory. Private label purchase commitments from July 1997 through January of 1998 of \$12.9 million at cost are approximately 27 percent lower than the \$17.6 million at cost private label inventory commitment during the same period last year. Based upon the performance to date of its private label merchandise, the Company anticipates increased markdown activity during the remainder of 1997

in connection with the sale of excess inventory. At the end of the first quarter of fiscal 1997, the Company had approximately \$15 million in private label inventory.

Reichman added: "this new focus will allow us to leverage our 20 years of experience in operating branded specialty retail stores with the goal of increasing our sales and profits, increasing our cash position and enhancing long term shareholder value."

Designs, Inc. operates 154 stores in five retail formats: 43 "Designs" stores, 58 "Levi's(R) Outlet by Designs" stores, 26 "Boston Traders(R) Outlet" stores, and five "Boston Trading Co.(SM)" stores. A joint venture between subsidiaries of Designs, Inc. and Levi's Only Stores, Inc., a wholly-owned subsidiary of Levi Strauss & Co., operates 11 "Original Levi's(R) Stores(TM)" and 11 "Levi's(R) Outlet" stores.

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