

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 31, 1998 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 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
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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 31, 1998
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Common	15,878,000

DESIGNS, INC.
CONSOLIDATED BALANCE SHEETS
October 31, 1998, November 1, 1997 and January 31, 1998 (In
thousands, except share data)

	October 31, 1998	November 1, 1997	January 31, 1998
ASSETS	(unaudited)	(unaudited)	
	-----	-----	-----
Current assets:			
Cash and cash equivalents	\$ 1,490	\$ 2,402	\$1,473
Accounts receivable	3,282	358	115
Inventories	58,938	82,849	54,972
Income taxes refundable and deferred	10,196	14,603	13,857
Pre-opening costs, net	-	242	-
Prepaid expenses	1,422	4,362	1,015
	-----	-----	-----
Total current assets	75,328	104,816	71,432
Property and equipment, net of accumulated depreciation and amortization	19,897	38,205	35,307

Other assets:			
Deferred income taxes	6,362	2,700	6,362
Intangible assets, net	2,707	3,010	2,945
Other assets	1,201	253	353
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Total assets	\$105,495	\$148,984	\$116,399
	=====	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$11,610	\$27,229	\$8,821
Accrued expenses and other current liabilities	5,879	7,551	6,129
Accrued rent	2,005	2,739	2,751
Reserve for severance and store closings	7,111	5,040	1,799
Notes payable	11,340	10,000	9,828
	-----	-----	-----
Total current liabilities	37,945	52,559	29,328
	-----	-----	-----
Minority interest	-	5,427	4,691
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, 16,160,000, 15,969,000 and 16,012,000 shares issued at October 31, 1998, November 1, 1997 and January 31, 1998, respectively	161	160	160
Additional paid-in capital	53,867	53,541	53,652
Retained earnings	15,503	39,124	30,395
Treasury stock at cost, 281,000 shares	(1,827)	(1,827)	(1,827)
Deferred compensation	(154)	-	-
	-----	-----	-----
Total stockholders' equity	67,550	90,998	82,380
	-----	-----	-----
Total liabilities and stockholders	\$105,495	\$148,984	\$116,399
	=====	=====	=====

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	
	October 31, 1998	November 1, 1997
Sales	\$ 58,714	\$ 77,459
Cost of goods sold including occupancy	45,247	58,659
Gross profit	13,467	18,800
Expenses:		
Selling, general and administrative	12,699	16,466
Provision for store closings	13,407	-
Depreciation and amortization	2,632	2,799
Total expenses	28,738	19,265
Operating income (loss)	(15,271)	(465)
Interest expense	163	258
Interest income	31	26
Income (loss) before minority interest and income taxes	(15,403)	(697)
Less minority interest	(1,278)	240
Income (loss) before income taxes	(14,125)	(937)
Provision (benefit) for income taxes	(5,379)	(370)
Net income (loss)	\$ (8,746)	\$ (567)
Net income (loss) per common and common equivalent share- basic and diluted	\$ (0.55)	\$(0.04)
Weighted average common and common equivalent shares outstanding- basic and diluted	15,867	15,641

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)

	Nine Months Ended	
	October 31, 1998	November 1, 1997
Sales	\$ 149,193	\$ 197,472
Cost of goods sold including occupancy	117,013	167,771
Gross profit	32,180	29,701
Expenses:		
Selling, general and administrative	36,420	49,470
Provision for store closings	13,407	6,046
Depreciation and amortization	7,859	8,466
Total expenses	57,686	63,982
Operating income (loss)	(25,506)	(34,281)
Interest expense	469	664
Interest income	70	94
Income (loss) before minority interest and income taxes	(25,905)	(34,851)
Less minority interest	(1,692)	(187)
Income (loss) before income taxes	(24,213)	(34,664)
Provision (benefit) for income taxes	(9,321)	(14,333)
Net income (loss)	\$ (14,892)	\$ (20,331)
Net income (loss) per common and common equivalent share basic and diluted	\$ (0.94)	\$ (1.30)
Weighted average common and common equivalent shares outstanding- basic and diluted	15,789	15,623

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)

	Twelve Months Ended	
	October 31, 1998	November 1, 1997
Sales	\$ 217,446	\$ 276,247
Cost of goods sold including occupancy	176,609	224,685
Gross profit	40,837	51,562
Expenses:		
Selling, general and administrative	52,581	65,144
Provision for store closings	15,007	6,046
Depreciation and amortization	10,629	11,015
Total expenses	78,217	82,205
Operating income (loss)	(37,380)	(30,643)
Interest expense	656	727
Interest income	121	355
Income (loss) before minority interest and income taxes	(37,915)	(31,015)
Less minority interest	(1,830)	204
Income (loss) before income taxes	(36,085)	(31,219)
Provision (benefit) for income taxes	(12,479)	(13,079)
Net income (loss)	\$(23,606)	\$(18,140)
Net income (loss) per common and common equivalent share basic and diluted	\$ (1.50)	\$ (1.16)
Weighted average common and common equivalent shares outstanding- basic and diluted	15,773	15,616

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

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

	Nine months ended	
	October 31, 1998	November 1, 1997
Cash flows from operating activities:		
Net loss	\$ (14,892)	\$ (20,331)
Adjustments to reconcile to net cash provided by (used for) operating activities:		
Depreciation and amortization	7,859	8,466
Minority interest	(1,701)	(187)
Loss on sale of investments	-	102
Loss from disposal of property and equipment	986	26
Changes in operating assets and liabilities:		
Accounts receivable	(651)	200
Inventories	(918)	(2,891)
Prepaid expenses	(407)	472
Reserve for severance and store closings	11,866	5,347
Income taxes refundable and deferred	3,661	(14,796)
Accounts payable	2,789	15,035
Accrued expenses and other current liabilities	(249)	505
Accrued rent	1,176	341
	9,519	(7,711)
Cash flows from investing activities:		
Acquisition of 25 stores (note 3)	(9,737)	-
Additions to property and equipment	(388)	(7,115)
Incurrence of pre-opening costs	-	(327)
Proceeds from disposal of property and equipment	102	154
Sale and maturity of investments	-	5,888
(Increase) reduction in other assets	(1,052)	12
Distributions to joint venture partner	-	(1,110)
	(11,075)	(2,498)
Cash flows from financing activities:		
Net borrowings under credit facility	1,512	9,000
Issuance of common stock under option program (1)	61	221
	1,573	9,221
Net increase (decrease) in cash and cash equivalents	17	(988)
Cash and cash equivalents:		
Beginning of the year	1,473	3,390
	\$ 1,490	\$ 2,402
	\$ 1,490	\$ 2,402

(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 contained in the Company's audited consolidated financial statements for the year ended January 31, 1998. 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 (the "Designs JV Subsidiary"), and LDJV Inc., a subsidiary of Levi's Only Stores, Inc. ("LOS"), which is a wholly-owned subsidiary of Levi Strauss & Co., entered into a partnership agreement (the "Partnership Agreement"). The purpose of the Partnership Agreement was to sell Levi's(R) brand jeans and jeans-related products in Original Levi's Stores(R) and Levi's(R) Outlet stores in a specified territory. The joint venture established under 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, nine and twelve months ended October 31, 1998. Minority interest represents LDJV Inc.'s 30% interest in the OLS Partnership.

During the first nine months of fiscal 1997, the OLS Partnership distributed \$3.7 million in "Excess Cash" to its partners in accordance with the terms of the Partnership Agreement. During the first nine months of fiscal 1998, there were no cash distributions to the partners.

In October 1998, the Company announced that it had reached an agreement with LOS to terminate the OLS Partnership. Pursuant to this agreement the OLS Partnership distributed to the Designs JV Subsidiary 11 Levi's(R) Outlet stores, valued at a net book value of approximately \$6.3 million. In addition, the OLS Partnership distributed three Original Levi's Stores(R) to LDJV Inc. The net book value of these three Original Levi's Stores(R) was approximately \$5.5 million, which was greater than LDJV Inc.'s equity interest in the OLS Partnership. Consequently, LDJV Inc. made a \$2.9 million capital contribution of cash to the OLS Partnership at October 31, 1998.

In connection with the plan to dissolve and wind up the OLS Partnership, the partnership recorded a pre-tax charge of \$4.5 million related to the closing of the eight Original Levi's Stores(R) that it did not distribute. This \$4.5 million charge is included in the total \$13.4 million charge recorded by the Company on a consolidated basis and is discussed in Note 5 below. This charge includes cash costs of approximately \$2.9 million related to lease terminations, severance and other costs. The remaining \$1.6 million of non-cash costs were related to fixed asset write-offs. Barring unforeseen circumstances, the Company expects to close these stores by the end of fiscal 1998.

3. Outlet Store Acquisition

On September 30, 1998, the Company completed the acquisition of 25 outlet stores from LOS for a purchase price of approximately \$9.7 million, subject to adjustment in the 60 to 90 days following the acquisition date. These stores, 16 of which now operate under the names "Dockers(R) Outlet by Designs" and nine of which operate under the name "Levi's(R) Outlet by Designs", are located in the eastern United States. The majority of the purchase price for these stores, approximately \$5.1 million, was for inventory. The remainder of the purchase price, approximately \$4.6 million, was for fixed assets associated with these stores. The Company also assumed the obligations associated with the real estate leases for the stores.

4. Pro Forma Results of Operations

The following pro forma summary presents the consolidated results of operations of the Company, adjusted for: (a) the acquisition of the 25 outlet stores, and (b) 30% of the earnings of the 11 Levi's(R) Outlet stores that were distributed by the OLS Partnership.

The results of operations for the three, nine and twelve month periods ended October 31, 1998 include the results of operations since September 30, 1998 of the 25 outlet stores acquired from LOS. The following pro forma results have been adjusted to include results of operations for these stores for the period November 3, 1996 through September 30, 1998.

In addition, the results of operations for the three, nine and twelve month periods ended October 31, 1998 include the results of operations for the 11

Levi's(R) Outlet stores that were owned and operated by the OLS Partnership until October 31, 1998. The following pro forma results have been adjusted to assume that these 11 stores were wholly-owned by the Company for the period November 3, 1996 through October 31, 1998.

(In thousands,
except per share data)

	For the For the For the Three months ended Nine months		ended Twelve months ended 10/31/98 11/1/97 10/31/98 11/1/97		10/31/98 11/1/97	
Revenue	\$64,282	\$86,866	\$165,793	\$217,738	\$241,358	\$303,460
Net income (loss)	(8,064)	912	(14,434)	(18,607)	(22,664)	(15,819)
Net income (loss) per share	\$ (0.51)	\$ 0.06	\$ (0.91)	\$ (1.19)	\$ (1.44)	\$ (1.01)

5. Charge for Store Closings

During the third quarter of fiscal 1998, the Company recorded a pre-tax charge of \$13.4 million, or \$0.47 per share after tax, related to its decision to close 14 Designs stores, eight Boston Trading Co.(R)/BTC(TM) stores and eight Original Levi's Stores(R) operated by the OLS Partnership, which is discussed in Note 2 above.

This charge includes cash costs of approximately \$7.0 million related to lease terminations, severance and other related costs and non-cash costs of approximately \$6.4 million related to the write-off of fixed assets. At October 31, 1998 the \$7.0 million of cash costs is included in Reserve for Severance and Store Closings on the Consolidated Balance Sheet. Property and Equipment on the Consolidated Balance Sheet is net of the \$6.4 million related to write-off of fixed assets.

The estimated earnings and cash flow benefits expected, barring unforeseen circumstances, to be derived from these store closures are \$3.9 million and \$5.9 million, respectively, for fiscal 1999 and \$3.6 million and \$5.5 million, respectively, for fiscal 2000.

6. 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 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 1996, 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.

7. Credit Facility

On June 4, 1998 the Company entered into an Amended and Restated Loan and Security Agreement with a subsidiary of BankBoston, N.A., BankBoston Retail Finance Inc., as agent for the lenders named therein (the "Credit Agreement"). The Credit Agreement, which terminates on June 4, 2001, consists of a revolving line of credit permitting the Company to borrow up to \$50 million. Under this credit facility, the Company has the ability to cause the lenders to issue documentary and standby letters of credit up to \$5 million. The Company's obligations under the Credit Agreement are secured by a lien on all of the Company's assets, except the assets of the OLS Partnership. The ability of the Company to borrow under the Credit Agreement is subject to a number of conditions including the accuracy of certain representations and compliance with tangible net worth and fixed charge coverage ratio covenants. The availability of the unused revolving line of credit is limited to specified percentages of the value of the Company's eligible inventory determined under the Credit Agreement, ranging from 60% to 65%. At the option of the Company, borrowings under this facility bear interest at BankBoston, N.A.'s prime rate or at LIBOR-based fixed rates. The Credit Agreement contains 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. The Company is subject to a prepayment penalty of \$250,000 to \$500,000 if the Credit Agreement terminates prior to June 4, 2000.

In the third quarter of fiscal 1998, the Credit Agreement was amended to, among other things, permit and acknowledge the Company's acquisition of the 25 outlet stores from LOS and the transactions associated with the agreement to dissolve and wind up the OLS Partnership. These amendments include an increase in the minimum tangible net worth that the Company must have, which was adjusted to recognize the value of the assets distributed to the Company by the OLS Partnership. Prior to these amendments, the tangible net worth of the OLS Partnership was excluded from the calculation of the Company's tangible net worth for purposes of these financial covenants. Subject to certain limitations and conditions, the Credit Agreement permits the Company, without the prior permission of its lenders, to consummate certain acquisitions and to repurchase shares of the Company's Common Stock. These amendments, among other things, reduced the amount that the Company may expend for such purposes without obtaining the prior permission of its lenders.

At October 31, 1998 the Company had borrowings of approximately \$10.3 million outstanding under this facility and had two outstanding standby letters of credit totaling approximately \$228,000. The Company was in compliance with all debt covenants under the Credit Agreement at the end of the third quarter.

8. Net Income (Loss) Per Share

The Company follows Statement of Financial Accounting Standards No. 128, "Earnings per Share". The following table reconciles the numerator and the denominator of the basic and diluted earnings per share (EPS) as shown on the Consolidated Statements of Income.

(In thousands,
except per share data)

For the For the For the Three months ended Nine months
ended Twelve months ended 10/31/98 11/1/97 10/31/98 11/1/97
10/31/98 11/1/97

Basic EPS Computation

Numerator:

Net loss \$(8,746) \$(567) \$(14,892) \$(20,331) \$(23,606) \$(18,140)

Denominator:

Weighted average
common shares
outstanding 15,867 15,641 15,789 15,623 15,773 15,616

Basic EPS \$ (0.55) \$(0.04) \$ (0.94) \$ (1.30) \$ (1.50) \$ (1.16)

Diluted EPS Computation

Numerator:

Net income (loss) \$(8,746) \$(567) \$(14,892) \$(20,331) \$(23,606) \$(18,140)

Denominator:

Weighted average
common shares
outstanding 15,867 15,641 15,789 15,623 15,773 15,616

Diluted EPS \$ (0.55) \$(0.04) \$(0.94) \$(1.30) \$(1.50) \$ (1.16)

The following shares of Common Stock were excluded from the computation of diluted earnings per share, as the inclusion of these shares would have been anti-dilutive:

(In thousands)	For the		For the		For the	
	Three months ended 10/31/98	11/1/97	Three months ended 10/31/98	11/1/97	Twelve months ended 10/31/98	11/1/97
Anti-dilutive shares	115	33	66	44	63	52

The following options to purchase shares of Common Stock were excluded from computation of diluted EPS because the exercise price of the options was greater than the average market price per share of Common Stock for the periods reported. Excluded options to purchase shares of Common Stock were:

(In thousands)	For the		For the		For the	
	Three months ended 10/31/98	11/1/97	Three months ended 10/31/98	11/1/97	Twelve months ended 10/31/98	11/1/97
Options	2,012	2,123	1,892	2,108	1,892	2,108

9. Comprehensive Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" on February 1, 1998. This Statement requires that all components of comprehensive income be reported prominently in the financial statements. For the Company, the only adjustment for comprehensive income is deferred compensation. Total comprehensive income for the three, nine and twelve months ended October 31, 1998 was as follows:

(In thousands)	Three months	Nine Months	Twelve Months
Net loss	\$(8,746)	\$(14,892)	\$(23,606)
Deferred compensation	20	(154)	(154)
Comprehensive income (loss)	\$(8,726)	\$(15,046)	\$(23,760)

There were no adjustments for comprehensive income(loss) for the same periods in the prior year.

10. Recently Issued Accounting Standards

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 specifies new guidelines for determining a company's operating segments and related requirements for disclosure. SFAS 131 becomes effective for fiscal years beginning after December 15, 1997. The Company is required to adopt this standard for the fiscal year ending January 30, 1999. The required disclosures for SFAS No. 131 will be included in the Company's 1998 annual report on Form 10K.

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

OUTLET STORE EXPANSION, JOINT VENTURE WIND UP AND UNPROFITABLE STORE CLOSINGS

During the third quarter of fiscal 1998, the Company completed transactions that narrow the Company's business to one focused on its outlet stores.

On September 30, 1998, the Company purchased 16 Dockers(R) Outlet stores and nine Levi's(R) Outlet stores from a subsidiary of Levi Strauss & Co. for approximately \$9.7 million. As discussed below, these stores have generated approximately \$3.9 million in sales for the two month period ended November 28, 1998. The Company believes, barring unforeseen circumstances, that this group of stores will produce approximately \$24 million in revenue and \$2.2 million in cash flow in fiscal 1999. The acquisition included the purchase of \$5.1 million of inventory and \$4.6 million of fixed assets associated with these stores. The Company also assumed the real estate leases associated with these stores. The Company sees opportunities to improve the performance of the 25 stores as these stores are integrated into its existing store operations, thereby leveraging the Company's existing outlet store infrastructure in areas such as store operating and payroll expenses. As discussed below, these stores have generated sales for the two month period ended November 28, 1998 of approximately \$3.9 million. Although these stores are generating lower sales than they generated last year for the same two months, sales for the two month period ended November 28, 1998 is approximately 20% in excess of the amount of sales the Company projected for these stores prior to consummation of the acquisition.

Also during the third quarter, the Company and Levi Strauss & Co. agreed to dissolve and wind up the joint venture between subsidiaries of the two companies (the "OLS Partnership"). As part of the dissolution process, on October 31, 1998, the OLS Partnership distributed 11 Levi's(R) Outlet stores to the Company having a net book value of approximately \$6.4 million. The Company believes, barring unforeseen circumstances, that these 11 Levi's(R) Outlet stores will generate a total of approximately \$12 million in revenues and \$1.4 million in cash flow throughout all of fiscal year 1998. The Company believes, barring unforeseen circumstances, that this group of stores will produce approximately \$14 million in revenue and \$1.9 million in cash flows in fiscal 1999. Since the Company previously owned only a 70% interest in these stores, the only pro-forma adjustment for future earnings is the additional 30% of earnings and cash flows that will be derived from these stores, which are now wholly-owned by the Company.

In addition, the OLS Partnership distributed to LDJV Inc., a subsidiary of Levi's Only Stores, Inc., three Original Levi's Stores(R) located in New York City and Boston, Massachusetts. The net book value of these distributed stores was approximately \$5.5 million, which was greater than LDJV Inc.'s equity ownership in the OLS Partnership. Consequently, LDJV Inc. made a \$2.9 million capital contribution to the OLS Partnership on October 31, 1998.

The OLS Partnership intends to close, barring unforeseen circumstances, as part of the termination of its operations, eight remaining Original Levi's Stores(R) through lease terminations and expirations. The Company anticipates that the joint venture will have sufficient cash flow to satisfy its remaining obligations. However, if the OLS Partnership does not have the ability to pay its obligations, the Company would be required to contribute additional funds in proportion to its 70% partnership interest.

During the third quarter of fiscal 1998, the Company also announced its plans, barring unforeseen circumstances, to close 14 unprofitable Designs stores and eight unprofitable Boston Trading Co.(R)/BTC(TM) stores through lease terminations and expirations. This store closing strategy resulted in the Company recording a pre-tax charge of \$13.4 million, or (\$0.47) per share after tax, related to the closing of 14 Designs stores, eight Boston Trading Co.(R)/BTC(TM) and eight Original Levi's Stores(R) owned by the joint venture. This charge includes approximately \$7.0 million of cash costs related to lease terminations, severance associated with these store closings, and other related miscellaneous expenses. The remainder of the \$13.4 million charge consists of non-cash costs of approximately \$6.4 million related to fixed asset write-offs associated with the planned store closings, and includes a fixed asset write-off related to plans to replace certain outlet stores with new ones. This charge is accounted for in the provision for store closings on the Consolidated Statements of Income for the three, nine and twelve months ended October 31, 1998.

RECENT DEVELOPMENTS

On December 11, 1998, the Company announced that its Board of Directors had formed a committee of independent outside directors to consider the Company's strategic alternatives, including a possible sale of the Company, with a view towards maximizing shareholder value in the near term. The Company announced that its Board had determined to oppose a consent solicitation initiated by Jewelcor Management, Inc. and its controlling shareholder, Seymour Holtzman. The

Company also announced that it does not believe that a change in the composition of the Board at this time is in the best interests of its shareholders because it would interfere with the Company's process of considering its strategic alternatives and the implementation of any such alternatives and could adversely affect the Company's relationship with Levi Strauss & Co.

RESULTS OF OPERATIONS

Sales

Set forth below are the Company's total sales and comparable store sales for the third quarter of fiscal 1998 and the nine month and twelve month rolling periods ended October 31, 1998, and for these same periods in the prior fiscal year. Of the 132 stores the Company operated as of October 31, 1998, 80 were comparable stores.

(In Thousands)	Total Sales		Percentage
	10/31/98	11/1/97	Change at 10/31/98
Three months ended	\$ 58,714	\$ 77,459	(24.2%)
Nine months ended	149,193	197,472	(24.4%)
Twelve months ended	217,446	276,247	(21.3%)

(In Thousands)	Comparable Store Sales		Percentage
	10/31/98	11/1/97	Change at 10/31/98
Three months ended	\$ 45,604	\$ 57,331	(20.5%)
Nine months ended	114,197	144,728	(21.1%)
Twelve months ended	161,081	199,052	(19.1%)

Approximately \$16.6 million, or 35 percent, of the \$48.3 million year-to-date decline in total sales is the result of the closure of 31 unprofitable stores in fiscal 1997 and 20 unprofitable stores through the end of the third quarter of fiscal 1998. The remainder of this decline is primarily due to lower sales of men's and women's Levi's(R) brand jeans and tops and limited availability of certain popular Levi Strauss & Co. styles of merchandise. As reported by national and trade press, the Levi's(R) brand has experienced a notable decline in U.S. market share. This decline has affected the Company's sales of Levi's(R) brand merchandise. In the first nine months of fiscal 1998, approximately 66 percent of the Company's revenue was generated by sales in its Levi's(R) Outlet by Designs stores. The Company anticipates that Levi's(R) and Dockers(R) brand merchandise will account for a greater portion of future sales because of the recent addition of 25 outlet stores and the decision to eliminate 30 mall-based stores from the Company's mix of stores. The Company expects, barring unforeseen circumstances, that 90% of its revenue will be generated by its Levi's(R) and Dockers(R) Outlet stores in fiscal 1999. The Company anticipates that decreases in comparable store sales will continue through the remainder of fiscal 1998.

Gross Margin

Set forth below are gross margin rates (including the cost of occupancy) as a percentage of total sales for the third quarter of fiscal 1998 and the nine month and twelve month rolling periods ended October 31, 1998, and for these same periods in the prior fiscal year.

	Gross Margin Rate		Percentage
	10/31/98	11/1/97	Change at 10/31/98
Three months ended	22.9%	24.3%	(1.4%)
Nine months ended	21.6%	15.0%	6.6%
Twelve months ended	18.8%	18.7%	0.1%

The 1.4 percentage point decrease in gross margin in the third quarter of fiscal 1998 compared to the third quarter of fiscal 1997 is primarily the result of fixed occupancy costs as a percentage of decreasing sales which resulted in a 2.0 percentage point decrease in gross margin. This decrease was partially offset by a 0.6 percentage point improvement in merchandise margin which was the result of increased initial margins on certain Levi's(R) Outlet merchandise, decreased promotional markdowns and events, and the elimination of the poor performing Boston Traders(R) brand product from the merchandise mix. The changes in gross margin rate for the nine and twelve month periods are attributable to merchandise markdowns and fabric reserves recorded in the second quarter of fiscal 1997 related to the Company's shift in strategy away from its vertically integrated private label development strategy, adjustments for inventory shrinkage results recorded in the fourth quarter of fiscal 1997 and reserves recorded against pending resolution of vendor discussions regarding proofs of delivery of certain goods.

Selling, General and Administrative Expenses

Set forth below is certain information concerning the Company's selling, general and administrative expenses for the third quarter of fiscal 1998 and the nine month and twelve month rolling periods ended October 31, 1998, and for these

same periods in the prior fiscal year.

(In thousands, except percentage data)	SG&A Expenses			
	10/31/98		11/1/97	
	\$	% of sales	\$	% of sales
Three months ended	\$12,699	21.6%	\$16,466	21.3%
Nine months ended	36,420	24.4%	49,470	25.1%
Twelve months ended	52,581	24.2%	65,144	23.4%

The \$3.8 million decrease in selling, general and administrative expenses in the third quarter of fiscal 1998 compared to such expenses in the third quarter of fiscal 1997 is primarily due to reduced store payroll expense from lower staffing levels in response to sales decreases. Also contributing to this decrease was a series of expense reduction actions undertaken in fiscal 1997 that are ongoing. The decreases in selling, general and administrative expenses for the nine month and rolling twelve month periods ended October 31, 1998 compared to such expenses in the same periods in the prior year are due to similar reasons. The Company expects to further reduce overhead levels by the beginning of fiscal 1999 and expects to realize approximately \$1 million of savings from these reductions in fiscal 1999.

Provision for Store Closings

In addition to the store closing charge recorded in the third quarter of fiscal 1998 which is discussed above, during the second quarter of fiscal 1997, the Company recorded a pre-tax charge of \$20 million, or \$(0.75) per share. This charge was principally related to the Company's decision in June 1997 to abandon its vertically integrated private label strategy. Approximately \$13.9 million of this charge related to merchandise markdowns and cancellation of fabric commitments and is accounted for in cost of goods sold for the twelve months ended November 1, 1997. The remaining approximately \$6.1 million, related to the costs of terminating leases for unprofitable stores, asset impairment charges, severance and other related costs, is included in the provision for store closings on the Consolidated Statement of Income for the same period. In the fourth quarter of fiscal 1997 the Company recorded an additional pre-tax charge of \$1.6 million, or \$(0.06) per share after tax, related to the Company's decision to reduce corporate overhead through a January 1998 reduction in force. The Company expects savings of approximately \$3.3 million in payroll costs as a result of this reduction in fiscal 1998. This charge is included in the provision for store closings for the twelve months ended November 1, 1997.

Depreciation and Amortization

Set forth below are depreciation and amortization expenses for the Company for the third quarter of fiscal 1998 and the nine month and twelve month rolling periods ended October 31, 1998, and for these same periods in the prior fiscal year.

(In thousands, except percentage data)	Depreciation and Amortization		Percentage Change at 10/31/98
	10/31/98	11/1/97	
Three months ended	\$ 2,632	\$ 2,799	(6.0%)
Nine months ended	7,859	8,466	(7.2%)
Twelve months ended	10,629	11,105	(4.3%)

The decrease in depreciation and amortization expenses in the third quarter of fiscal year 1998 compared to the third quarter of fiscal year 1997 is principally due to the write off of fixed assets in fiscal 1997 related to unprofitable store closures. The decreases for the nine month and rolling twelve month periods compared to the same periods in the prior fiscal year also are primarily due to the closing of stores and is partially offset by the timing of new and remodeled stores in the prior fiscal year.

Interest Expense

Interest expense was \$163,000 and \$258,000 in the third quarter of fiscal 1998 and fiscal 1997, respectively. For the nine-month period, interest expense was \$469,000 as compared to \$664,000 in the prior year. For the twelve-month period, interest expense was \$656,000 as compared to \$727,000 for the prior year. These decreases are attributable to lower average borrowing levels and decreased interest rates under the Company's revolving credit facility for the three, nine and twelve month periods ended October 31, 1998 as compared with the same periods in the prior year. The Company anticipates, barring unforeseen circumstances, that interest expense for fiscal 1998 will be approximately the same as the prior year due to the anticipated additional borrowings under the Company's revolving facility primarily to fund payments necessary for lease terminations associated with the closing of unprofitable stores, acquisition of the 25 outlet stores and special purchases of merchandise for the Levi's(R) and Dockers(R) Outlet by Designs stores.

Interest Income

Interest income for the third quarter of fiscal 1998 was \$31,000 compared to \$26,000 in the third quarter of fiscal year 1997. For the nine-month and rolling

twelve-month periods, interest income was \$70,000 and \$121,000, respectively, as compared to \$94,000 and \$355,000 for the comparable periods in the prior year. The decrease in interest income is attributable to lower average investment balances compared to the same periods in the prior year. The Company anticipates that interest income will be minimal through fiscal 1998.

Net Profit/Loss

Set forth below is the net loss for the Company for the third quarter of fiscal 1998 and the nine month and twelve month rolling periods ended October 31, 1998, and for these same periods in the prior fiscal year.

(In thousands, except per share data)	Net Loss			
	10/31/98		11/1/97	
	\$	per share	\$	per share
Three months ended	\$ (8,746)	\$(0.55)	\$ (567)	\$(0.04)
Nine months ended	(14,892)	(0.94)	(20,331)	(1.30)
Twelve months ended	(23,606)	(1.50)	(18,140)	(1.16)

Below is a summary of certain pre-tax charges included in the net income reported during the respective periods:

(In thousands, except per share data)	For the Three months ended		For the Nine months ended		For the Twelve months ended	
	10/31/98	11/1/97	10/31/98	11/1/97	10/31/98	11/1/97
Store Closing Reserve recorded in Q3'98	\$13,400	--	\$13,400	--	\$13,400	--
Reduction in Force recorded in Q4'97	--	--	--	--	1,600	--
Store Closing Reserve and abandonment of vertical integration strategy in Q2'97	--	--	--	\$20,000	--	\$20,000
Total charges	\$13,400	--	\$13,400	\$20,000	\$15,000	20,000
Earnings(loss) per share impact of charges for each period	\$(0.47)	--	\$(0.47)	\$(0.75)	\$(0.53)	\$(0.75)
Earnings(loss) per share exclusive of the above charges	\$(0.08)	\$(0.04)	\$(0.47)	\$(0.55)	\$(0.97)	\$(0.41)

SEGMENT INFORMATION AND IMPACT OF THIRD QUARTER TRANSACTIONS

As described above, during the third quarter of fiscal 1998, the following transactions occurred:

- * The Company acquired 16 Dockers(R) Outlet and 9 Levi's(R) Outlet stores.
- * The Company received a distribution of 11 additional Levi's(R) Outlet stores from the OLS Partnership.
- * The Company announced plans to dissolve and wind up the OLS Partnership.
- * The Company decided to close 30 unprofitable stores and record a \$13.4 million pre-tax charge for these store closings.

As a result of these transactions, the Company now operates two store groups: (i) 100 Outlet stores and (ii) 9 Specialty stores.

Outlet Store Group

At October 31, 1998, the Outlet Store Group consisted of:

- * 59 Levi's(R) Outlet by Designs stores
- * 16 Dockers(R) Outlet by Designs and the 9 Levi's(R) Outlet by Designs stores that were acquired on September 30, 1998
- * 11 Levi's(R) Outlet stores which were owned and operated by the joint venture through October 31, 1998
- * 5 Buffalo Jeans Factory Stores

The following table sets forth certain information for the Outlet Store Group for the three, nine and twelve month rolling periods ended October 31, 1998, and for the same periods in the prior year and certain balance sheet information as of October 31, 1998.

Three months ended			Nine months ended			Twelve months ended		
10/31/98	11/1/97	%	10/31/98	11/1/97	%	10/31/98	11/1/97	%

Sales	\$ 44,808	\$ 53,046	(15.5%)	\$108,303	\$135,382	(20.0%)	\$148,000	\$183,817	(19.5%)
Gross Margin, net of occupancy costs	13,165	14,613	(9.9%)	30,399	40,025	(24.0%)	42,067	57,831	(27.3%)
Gross Margin Rate	29.4%	27.6%	6.5%	28.1%	29.6%	5.0%	28.4%	31.5%	(9.7%)
Contribution to profit (1)	6,505	7,203	(9.7%)	12,069	18,884	(36.1%)	17,604	30,151	(41.6%)
Cash Flow from operations	7,448	7,982	(6.7%)	14,452	21,295	(32.1%)	20,505	33,373	(38.6%)

Number of stores open:

Levi's(R)Outlet by Designs	59	59		59	59		59	59	
Joint Venture Levi's(R)Outlets	11	11		11	11		11	11	
Levi's(R)Outlets purchased (3)	9	-		9	-		9	-	
Dockers(R)Outlets purchased (3)	16	-		16	-		16	-	
Buffalo Jeans Factory Stores	5	-		5	-		5	-	
Total stores	100	70		100	70		100	70	

Balance Sheet at:

	10/31/98	11/1/97	
Inventory, net	\$ 50,813	\$ 53,486	(5.0%)
Merchandise Receipts for the nine months	67,411	86,439	(22.0%)
Fixed Assets	10,220	8,305	23.1%
Contingent Lease Obligations (2)	62,320	---	

- (1) The Company analyzes individual store profitability in terms of a store's "Contribution to Profit" which is defined by the Company as gross margin less occupancy costs and all store specific expenses such as payroll, advertising, insurance and depreciation.
- (2) Contingent Lease Obligations represents the total future minimum rental payments that the Company is obligated to pay under its existing store leases.
- (3) The Levi's(R) Outlet stores and the Dockers(R) Outlet stores purchased by the Company on September 30, 1998 are included in the Company's results of operations since September 30, 1998. Sales and contribution to profit for these 25 stores for the period September 30, 1998 to October 31, 1998 were \$1,733,000 and \$52,000, respectively.

Specialty Store Group

At October 31, 1998, the Specialty Store Group consisted of:

- * Six Designs stores
- * Three BTC(TM) stores

The Company expects to continue to test its multi-branded specialty store concept through fiscal 1999.

The following table sets forth certain information for the Specialty Store Group for the three, nine and twelve month rolling periods ended October 31, 1998, and for the same periods in the prior year and certain balance sheet information as of October 31, 1998.

	Three months ended			Nine months ended			Twelve months ended		
	10/31/98	11/1/97	%	10/31/98	11/1/97	%	10/31/98	11/1/97	%
Sales	\$ 3,380	\$ 3,888	(13.1%)	\$ 8,535	\$ 9,311	(8.3%)	\$ 13,536	\$ 14,727	(8.1%)
Gross Margin, net of occupancy costs	1,080	837	29.0%	2,720	1,999	36.1%	3,908	3,913	(0.1%)
Gross Margin Rate	32.0%	21.5%	48.8 %	31.9%	21.5%	48.4%	28.9%	26.6%	(.9%)
Contribution to Profit	(588)	(815)	(27.9%)	(1,847)	(2,561)	(27.9%)	(2,275)	(2,414)	(5.8%)
Cash Flow from operations	(423)	(649)	(34.8%)	(1,353)	(2,057)	(34.2%)	(1,615)	(1,248)	29.4%

Number of stores open:

BTC(TM)/Boston Trading Co.(R)	3	3		3	3		3	3	
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Designs stores	6	6	6	6	6	6
Total stores	9	9	9	9	9	9

Balance Sheet at:	10/31/98	11/1/97
Inventory, net	3,930	3,979 (1.2%)
Merchandise Receipts for the nine months	6,234	7,917 (21.3%)
Fixed Assets	1,783	2,301 (22.5%)
Contingent Lease Obligations	6,032	--

Closed and Other Stores

This group of stores includes:

- * Designs and Boston Traders(R) Outlet stores closed as part of the fiscal year 1997 store closing program Designs, Boston Trading Co.(R)/BTC(TM) stores that will close as part of the fiscal 1998 store closing program.
- * The operations of the joint venture stores that are closing and the three Original Levi's Stores(R) that were distributed as part of the dissolution of the joint venture.
- * Four Boston Traders(R) Outlet stores that will either be closed or will be converted to Dockers(R) Outlet stores during fiscal 1999.

The following table sets forth certain information for the Closed and Other Store Group for the three, nine and twelve month rolling periods ended October 31, 1998, and for the same periods in the prior year and certain balance sheet information as of October 31, 1998.

	Three months ended			Nine months ended			Twelve months ended		
	10/31/98	11/1/97	%	10/31/98	11/1/97	%	10/31/98	11/1/97	%
Sales	\$ 10,526	\$ 20,525	(48.7%)	\$32,355	\$ 52,779	(38.7%)	\$ 55,910	\$ 77,703	(28.0%)
Gross Margin, net of Occupancy costs	(51)	4,110	(101.2%)	1,365	3,877	(64.8%)	(2,090)	6,736	(131.0%)
Contribution to Profit	(3,674)	(1,796)	104.6%	(9,681)	(11,204)	(13.6%)	(18,675)	(13,404)	39.3%
Store Closing Charges	(13,400)	--		(13,400)	(20,000)		(15,000)	(20,000)	

Reconciliation of Contribution to Profit to Operating Income (Loss)

Contribution to Profit:								
Outlet Store Group	6,505	7,203		12,069	18,884		17,604	30,151
Specialty Store Group	(588)	(815)		(1,847)	(2,561)		(2,275)	(2,414)
Closed Store Group	(3,674)	(1,796)		(9,681)	(11,204)		(18,675)	(13,404)
Store Closing Charges	(13,400)	--		(13,400)	(20,000)		(15,000)	(20,000)
General and Administrative	(4,114)	(5,057)		(12,647)	(19,400)		(19,034)	(24,976)
Total Operating Loss	(15,271)	(465)		(25,506)	(34,281)		(37,380)	(30,643)

SEASONALITY

The Company's business has historically been 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. In recent years, the Company's focus has shifted towards its outlet store business and the percentage of this business has increased (and is anticipated to continue to increase) because of the shift in the Company's store mix towards outlet stores and away from closed and closing mall-based specialty stores. 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 a difference in seasonality of the Company's outlet business as compared with 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, and the purchase of 25 outlet stores from Levi's Only Stores, Inc. In fiscal 1999, the Company expects to incur capital expenditures related to system enhancements, new outlet stores and outlet store relocations

of \$2.6 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, store remodeling and acquisition requirements.

WORKING CAPITAL AND CASH FLOWS

To date, the Company has financed its working capital requirements and store opening and remodeling programs with cash flow from operations, income tax refunds, borrowings under the Company's credit facility and proceeds from Common Stock offerings. Cash provided by operations for the first nine months of fiscal 1998 was \$10.2 million as compared to cash used for operations of \$7.7 million for the same period in the prior year. This \$17.9 million improvement is the result of the receipt of a federal income tax refund, lower inventory purchases, expense control initiatives, the closure of stores and the timing of other working capital accounts.

The Company's cash and investment position at October 31, 1998 was approximately \$1.5 million, compared to \$2.4 million at November 1, 1997. At October 31, 1998, the Company had borrowings of \$10.3 million outstanding under its revolving credit facility as compared to borrowings outstanding of \$9.0 million at November 1, 1997. The Company expects that average borrowings in the fourth quarter of fiscal 1998 will be higher than those in the fourth quarter of fiscal 1997 as a result of borrowings under the facility to fund the acquisition of the 25 outlet stores, special purchases of merchandise for the Levi's(R) and Dockers(R) Outlet by Designs stores, and the cost of lease terminations associated with the closing of unprofitable stores, as described above.

The Company's working capital at October 31, 1998 was approximately \$37.4 million, compared to \$52.2 million at November 1, 1997. This decrease in working capital was primarily attributable to operating losses for the twelve months ending October 31, 1998. At October 31, 1998, total inventory equaled \$58.9 million, compared to \$82.8 million at November 1, 1997. The decrease of 29 percent in the Company's inventory level was primarily due to the liquidation of private label product, the closing of unprofitable stores, and reduced purchases of Levi Strauss & Co. brands of merchandise. The Company continues to evaluate and, within the discretion of management, act upon opportunities to purchase substantial quantities of Levi's(R) and Dockers(R) brand products for its Levi's(R) and Dockers(R) Outlet by Designs stores.

During the first nine months of fiscal 1998, the Company experienced limited availability of merchandise from Levi Strauss & Co. The Company stocks its Levi's(R) Outlet by Designs and Dockers(R) Outlet by Designs exclusively with manufacturing overruns, discontinued lines and irregulars purchased directly from Levi Strauss & Co., and end of season merchandise transferred from the Company's mall-based stores. 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. During the fourth quarter of fiscal year 1998, the Company expects, barring unforeseen circumstances, to purchase approximately \$10 million at cost in special purchases of Levi's(R) tops and bottoms to compensate for the any decrease in availability of merchandise from Levi Strauss & Co. during fiscal 1999. The Company may act upon similar opportunities to purchase substantial quantities of Levi's(R) brand products for its Levi's(R) and Dockers(R) outlet stores into fiscal 1999.

At October 31, 1998, the accounts payable balance was \$11.6 million as compared with a balance of \$27.2 million at November 1, 1997. This 57 percent decrease was primarily related to the timing of payments to vendors associated with a reduced store count and reduced availability of certain products. The Company's trade payables to Levi Strauss & Co., its principal vendor, generally are due 30 days after the date of invoice. In fiscal 1997, prior to the abandonment of a vertically-integrated strategy, the Company sourced private label products primarily with offshore vendors. Payment to these vendors was through the use of letters of credit, which required payment upon presentation of shipping documents. During the third quarter of 1998 the Company was current with all outstanding merchandise payables to vendors. The Company expects, barring unforeseen circumstances, that any purchases of branded merchandise from vendors other than Levi Strauss & Co. will be limited and will be in accordance with customary industry credit terms.

On June 4, 1998 the Company entered into an Amended and Restated Loan and Security Agreement with a subsidiary of BankBoston, N.A., BankBoston Retail Finance Inc., as agent for the lenders named therein (the "Credit Agreement"). The Credit Agreement, which terminates on June 4, 2001, consists of a revolving line of credit permitting the Company to borrow up to \$50 million. Under this credit facility, the Company has the ability to cause the lenders to issue documentary and standby letters of credit up to \$5 million. The Company's obligations under the Credit Agreement are secured by a lien on all of the Company's assets, except the assets of the OLS Partnership. The ability of the Company to borrow under the Credit Agreement is subject to a number of conditions including the accuracy of certain representations and compliance with tangible net worth and fixed charge coverage ratio covenants. The availability of the unused revolving line of credit is limited to specified percentages of the value of the Company's eligible inventory determined under the Credit Agreement, ranging from 60% to 65%. At the option of the Company, borrowings under this facility bear interest at BankBoston, N.A.'s prime rate or at LIBOR-based fixed rates. The Credit Agreement contains 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. The Company is subject to a prepayment penalty of \$250,000 to \$500,000 if the Credit Agreement terminates prior to June 4, 2000.

In the third quarter of fiscal 1998, the Credit Agreement was amended to, among other things, permit and acknowledge the Company's acquisition of the 25 outlet stores from Levi's Only Stores, Inc. and the transactions associated with the agreement to dissolve and wind up of the OLS Partnership. These amendments include an increase in the minimum tangible net worth that the Company must have, which was adjusted to recognize the value of the assets distributed to the Company by the OLS Partnership. Prior to these amendments, the tangible net worth of the OLS Partnership was excluded from the calculation of the Company's tangible net worth for purposes of these financial covenants. Subject to certain limitations and conditions, the Credit Agreement permits the Company, without the prior permission of its lenders, to consummate certain acquisitions and to repurchase shares of the Company's Common Stock. These amendments, among other things, reduced the amount that the Company may expend for such purposes without obtaining the prior permission of its lenders.

At October 31, 1998, the Company had borrowings of \$10.3 million outstanding under this facility and had two outstanding standby letters of credit totaling approximately \$228,000. The Company was in compliance with all debt covenants under the credit agreement at the end of the third quarter.

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. were committed to make advances to the OLS Partnership in amounts up to \$3.5 million and \$1.5 million, respectively. There were never any borrowings under this credit facility since its inception. The OLS Credit Agreement expired on September 30, 1998.

CAPITAL EXPENDITURES

Total cash outlays for capital expenditures for the first nine months of fiscal 1998 were \$391,000, which represents the cost of store and corporate capital expenditures. Total cash outlays for the first nine months of fiscal 1997 were \$7.1 million. During the first six months of fiscal 1997, the Company opened six new Boston Trading Co.(R) stores, remodeled one Levi's(R) Outlet by Designs store and five Boston Traders(R) Outlet stores. During the nine months ended October 31, 1998, the Company has closed 20 stores as part its strategy to close unprofitable stores.

In fiscal year 1998 the Company was presented with an opportunity to test another branded outlet store concept. This new outlet store concept features a collection of tops and bottoms designed and produced under the Buffalo Jeans label. In the third quarter of fiscal year 1998, the Company opened five Buffalo Jeans Factory Stores in locations that were previously occupied by Boston Traders(R) Outlet stores. Buffalo Jeans Factory Stores sell in-season merchandise and manufacturers close-outs from this Canadian manufacturer of fashion apparel. Over time, based on the performance of the five test stores, the Company could open additional Buffalo Jeans Factory Stores. As a group, the Buffalo Jeans Factory Stores had approximately \$514,000 in sales in the first three months of operations. Buffalo Jeans is a well-known Canadian jeans and sportswear brand with a number stores in Canada, full-price U.S. retail distribution in stores such as Macy's Neiman Marcus, Burdines, Bloomingdales and select specialty stores.

Year 2000

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- I. State of Readiness: Most of the Company's computer and process control systems were designed to use only two digits to represent years. As a result, they may not recognize "00" as representing the year 2000, but rather the year 1900 which could result in errors or system failures. The Company is in the process of converting technology and its information systems to be Year 2000 compliant. Barring unforeseen circumstances, the Company anticipates that the conversion will be complete by the end of calendar year 1999.

The Company's primary data processing systems for financial reporting, and merchandise management have been upgraded with new releases of year 2000 compliant software. Other significant systems utilized by the Company, which includes point of sale is in the process of being upgraded and will be complete in the first quarter of 1999. The payroll system is in process of being reviewed and the Company plans to upgrade this system in 1999.

Embedded systems impacted by the year 2000 issue are being reviewed by management and a plan has been developed to address embedded systems based upon how critical they are to the business. During the first quarter of 1999 the Company expects to implement a plan to determine the year 2000 readiness of the Company's vendors including, Levi Strauss & Co. and the Company's other merchandise vendors.

- II. Cost to Address Year 2000 Issues: The Company expects to spend approximately \$500,000, which will be expensed to the Company's financial

statements, in the conversion and upgrade costs, primarily in fiscal 1998 to accomplish this. To date the Company has incurred approximately \$300,000, which does not include internal costs of approximately \$25,000, in the remediation of the year 2000 issue. The Company expects that cash flow from operations, and short-term revolving borrowings will enable it to fund its Year 2000 remediation .

III. Risks related to the Company's Year 2000 Issues: In the worst case scenario the Company's ability to operate would be impacted by the lack of electronic transmission of data from its merchandise vendors and would result in the implementation of manual processes to account for receipt of merchandise. The implementation of manual processes would result in a slow down of product shipments to the Company's stores, which could have an adverse impact on sales.

IV. Company's Contingency Plan: The Company's contingency plan in the event that a slow down of shipments from Levi Strauss would occur includes increasing purchases in advance of the beginning of the year 2000 to ensure adequate supplies of merchandise would be available. Embedded systems impacted by the year 2000 issue are being reviewed by management and will be addressed based upon how critical they are in relation to the business. During the first quarter of 1999 the Company expects to implement a plan to determine the year 2000 readiness of the Company's vendors including, Levi Strauss & Co. and the Company's other merchandise vendors.

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 original principal amount of \$1 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 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 on the Purchase Note that were due 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. The portion of the principal amount of the Purchase Note ultimately to be paid by the Company depends upon whether its claims are satisfied by Boston Trading and its stockholders.

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. 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). For the first time, the Outlet License Agreement now 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. At October 31, 1998, the average remaining lease term (including extension options) of the Company's Levi's(R) Outlet by Designs and Dockers(R) Outlet by Designs stores was approximately 9.5 years.

The Company is currently seeking opportunities to open and operate outlet stores for other manufacturers of branded apparel. Further, as leases expire, the Company may lose the right to use the Levi's(R) and Dockers(R) trademarks in connection with certain Levi's(R) and Dockers(R) Outlet by Designs stores. The Company continues to evaluate the performance of its existing stores and to consider ways to enhance its businesses. As a result of this process, certain store locations could be closed or relocated within a shopping 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 Exhibit 99 of the Company's Annual Report on Form 10-K, previously filed with the United States Securities and Exchange Commission on May 1, 1998, 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

Not applicable.

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:

None.

B. Exhibits:

- 3.1 Restated Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1 to Amendment No. 3 of the Company's Registration Statement on Form S-1 (No. 33-13402), and incorporated herein by reference). *
- 3.2 Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated June 22, 1993 (included as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q dated June 17, 1996, and incorporated herein by reference). *
- 3.3 Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of the Company 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, 1996, and incorporated herein by reference). *
- 3.4 By-Laws of the Company, as amended.
- 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). *
- 4.2 First Amendment dated as of October 6, 1997 to the Shareholder Rights Agreement dated as of May 1, 1995 between the Company its transfer agent (included as Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 9, 1997, 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 herein by reference). *
- 10.3 1992 Stock Incentive Plan, as amended (included as Exhibit 10.3 to

the Company's Quarterly Report on Form 10-Q dated June 16, 1998, and incorporated herein 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 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). *
- 10.6 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). *
- 10.7 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 ("BRBF"), 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). *
- 10.8 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). *
- 10.9 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). *
- 10.10 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). *
- 10.11 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). *
- 10.12 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). *
- 10.13 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). *
- 10.14 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). *
- 10.15 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). *
- 10.16 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). *
- 10.17 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). *
- 10.18 Amendment and Distribution Agreement dated as of October 31, 1998 among the Designs Partner, the LOS Partner and the OLS Partnership (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *
- 10.19 Guaranty by the Company of the indemnification obligation of the Designs Partner dated as of October 31, 1998 in favor of LS& Co.

(included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *

- 10.20 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). *
- 10.21 First Amendment to Credit Agreement among the Company, LOS and the OLS Partnership dated as of October 29, 1997 (included as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q dated December 16, 1997, and incorporated herein by reference). *
- 10.22 Asset Purchase Agreement between LOS and the Company relating to the sale by the Company of stores located in Minneapolis, Minnesota dated January 28, 1995 (included as Exhibit 10.9 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *
- 10.23 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). *
- 10.24 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). *
- 10.25 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). *
- 10.26 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). *
- 10.27 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). *
- 10.28 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). *
- 10.29 Separation Agreement dated as of February 9, 1998 between the Company and Mark S. Lisnow (included as Exhibit 10.26 to the Company's Annual Report on Form 10-K dated May 1, 1998, and incorporated herein by reference). *
- 11 Statement re: computation of per share earnings.
- 27 Financial Data Schedule.
- 99.1 Report of the Company dated May 1, 1998 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, 1998 and incorporated herein by reference). *
- 99.2 Press Release dated December 11, 1998 (included as Exhibit 99.1 to the Company's Current Report on Form 8-K dated December 11, 1998 and incorporated by reference). *

* 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 15, 1998

By: /s/ Carolyn R. Faulkner
Carolyn R. Faulkner, Vice President,
Chief Financial Officer and Treasurer

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 designated in the notice of the meeting, when called by the Chairman, the President or the Secretary, or by one-third or more in number of the directors, reasonable notice thereof being given to each director by the Secretary, the President or the Chairman or by any one of the directors calling the meeting.

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. Subject to law, to the Certificate of Incorporation and to the other provisions of these By-Laws, each officer shall have, in addition to the duties and powers herein set forth, such duties and powers as are commonly incident to his office and such additional duties and powers as the Board of Directors may from time to time designate.

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.

EX-11
EARNINGS PER SHARE

Exhibit 11. Statement Re: Computation of Per Share Earnings

EX-11
EARNINGS PER SHARE

	Three months October 31, 1998	Nine Months October 31, 1998	Twelve Months October 31, 1998
----- (in thousands except per share data)			
Basic EPS Computation			
Numerator:			
Net income (loss)	\$ (8,746)	\$ (14,892)	\$(23,606)
Denominator:			
Weighted average common shares outstanding	15,867	15,789	15,773

Basic EPS	\$ (0.55)	\$ (0.94)	\$ (1.50)

Diluted EPS Computation			
Numerator:			
Net income (loss)	\$ (8,746)	\$ (14,892)	\$(23,606)
Denominator:			
Weighted average common shares outstanding	15,867	15,789	15,773
Stock options, excluding anti-dilutive options of 115, 66, and 63 shares for the three, nine and twelve months ending October 31, 1998, respectively.	---	---	---

Total Shares	5,867	15,789	15,773

Diluted EPS	\$ (0.55)	\$ (0.94)	\$ (1.50)

	Three months November 1, 1997	Nine Months November 1, 1997	Twelve Months November 1, 1997
----- (in thousands except per share data)			
Basic EPS Computation			
Numerator:			
Net income (loss)	\$ (567)	\$ (20,331)	\$(18,140)
Denominator:			
Weighted average common shares outstanding	15,641	15,623	15,616

Basic EPS	\$ (0.04)	\$ (1.30)	\$ (1.16)
Diluted EPS Computation			
Numerator:			
Net income (loss)	\$ (567)	\$ (20,331)	\$(18,140)
Denominator:			
Weighted average common shares outstanding	15,641	15,623	15,616
Stock options, excluding anti-dilutive options 33, 44 and 52 shares for the three, nine and twelve months ending November 1, 1997, respectively.	---	---	---
Total Shares	15,641	15,623	15,616

Diluted EPS	\$ (0.04)	\$ (1.30)	\$ (1.16)
	=====		

This Schedule contains summary financial information extracted from the consolidated Balance Sheets of Designs, Inc. as of October 31, 1998, November 1, 1997 and January 31, 1998 and the Consolidated Statements of Income for the three, nine and twelve months ending October 31, 1998 and November 1, 1997 and is qualified in its entirety by reference to such financial statements.

	1000
9-mos	
	JAN-30-1999
	AUG-02-1998
	OCT-31-1998
	1,490
	0
	786
	0
	58,938
	72,832
	51,573
	31,676
	102,999
35,449	0
0	0
	0
	161
	67,389
102,999	
	149,193
	149,193
	117,013
	117,013
	57,686
	0
469	
	(25,905)
	(9,321)
(14,892)	
	0
0	
	0
	(14,892)
	(0.94)
	(0.94)

This Schedule contains summary financial information extracted from the consolidated Balance Sheets of Designs, Inc. as of November 1, 1997, November 2, 1996 and February 1, 1997 and the Consolidated Statements of Income for the three, nine and twelve months ending November 1, 1997 and November 2, 1996 and is qualified in its entirety by reference to such financial statements.

	1000
9-mos	
	JAN-31-1998
	AUG-03-1997
	NOV-01-1997
	2,402
	0
	358
	0
	82,849
	104,816
	71,184
	32,979
	148,984
52,559	0
0	0
	160
	90,838
148,984	
	197,472
	197,472
	167,771
	63,982
	0
664	(34,851)
	(14,333)
(20,331)	0
0	0
	(20,331)
	(1.30)
	(1.30)