Dear Shareholders:

Traditionally, our letter to shareholders reviews our Company's performance for the last fiscal year, which ended on February 2, 2002. In view of the Company's recent acquisition of substantially all of the assets of Casual Male, I think it is more appropriate for us to focus on this extraordinary transaction and its inherent opportunities.

Approximately nine months ago, David Levin, our Chief Executive Officer, brought to the attention of the Board of Directors the possible opportunity for us to acquire Casual Male, the country's largest retailer of men's clothing in the big and tall market. David was previously a senior executive of Casual Male's parent corporation, and possessed a unique understanding and keen insight of the business and its potential.

Since Casual Male is located approximately 14 miles from Designs, Inc.'s corporate office, its largest vendor is Levi Strauss & Co., and it is a retailer of similar casual men's clothing, I believe that it was almost divine intervention that brought this opportunity to our attention.

As a strategic purchaser of Casual Male, we are uniquely positioned to not only substantially reduce their existing overhead, but to also benefit significantly from the synergies of this transaction. Combining offices, warehouses, and staffs are among the most obvious efficiencies, but there are many more.

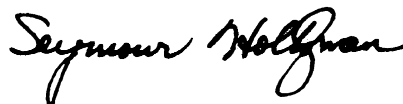
What is particularly noteworthy has been the enthusiastic support of the financial community that enabled us to raise $180 million in equity and debt within a very short period of time. Our due diligence began on March 21, 2002, and we had four weeks and four days to complete it, and to also raise the necessary capital. This was a Herculean task that your management team successfully accomplished.

For your review, we are including as an attachment to this Annual Report some of the historical information of Casual Male which we recently filed. The new annualized sales of the combined companies will be in excess of $500 million. Since Casual Male will constitute $325 million of this amount, we believe that changing the name of our Company to the Casual Male Retail Group, Inc. will more appropriately characterize our business going forward. Your vote will be appreciated.

Lastly, we have also included some information about LP Innovations. This company was operated as a subsidiary of Casual Male and is a provider of loss prevention services to other retailers. Recognizing that it is necessary for this entity to be an independent company, we have decided to divest LPI for the benefit of our shareholders.

Thank you very much for your confidence in us. We are very enthusiastic about the future of our company.

Sincerely,



Seymour Holtzman
Chairman of the Board

Dear Shareholders,

Since my letter to you a year ago, it is incredible how the Company has transformed itself from a limited growth chain of retail outlet stores strictly selling Levi's® and Dockers® to a multi-faceted retailer with tremendous growth potential. The last twelve months have been a journey where we have been able to leverage our strong management team and streamline our infrastructure into a newly identified retailer of the future.

How did we get to where we are today? When we determined that there was limited opportunity to expand the mature brand of Levi's® and Dockers® beyond 100 stores, senior management and the Board of Directors were challenged as to how to grow our business. A strategic plan was implemented to partner our strength as a preeminent operator in the outlet channel with powerful branded manufacturers who want to have their goods in outlet malls nationwide.

In the first quarter of this year, we successfully launched a rollout of licensed Candies® junior footwear and apparel outlet stores. We expect to have a total of 11 stores open by the back-to-school period. In August of this year, we will be opening our first 6 Ecko Unltd.® outlet stores, as part of our joint venture partnership with Ecko.Complex, LLC, one of the premier brands in the youth apparel market today.

In order to retain the full potential benefit of these initiatives, it is imperative that the new brand strategy meet the anticipated financial thresholds. If we meet those standards, we plan to open 75 outlet stores for both Candies® and Ecko Unltd.® over the next five years. There are additional opportunities for partnering with other manufacturers in the outlet sector when we are ready to take on additional growth.

While we are excited about these opportunities, we are even more excited about the recent purchase of Casual Male Big and Tall. When we first identified the possibility of trying to buy Casual Male a year ago, we believed it had tremendous potential. Since that time, and especially since we acquired Casual Male in May, our expectations are even higher. At the end of every workday, we realize that Casual Male is truly a "hidden gem" and this franchise holds great promise for our Company in the near future.

Several key factors point to Casual Male's effect on the future of our Company:

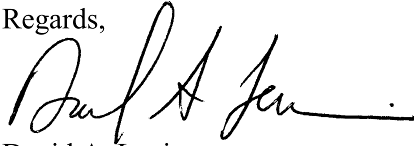
1) At 475 stores, Casual Male is 20 times larger than its next largest competitor. The big and tall business is estimated to be a $5- $6 billion industry and Casual Male has only a 7% market share. With a multi-channeled strategy of opening new stores, increasing the circulation of the catalog, and building our e-commerce business, we believe the potential for top line growth is outstanding.
2) Casual Male has historically been a high margin, high expense company. With Design's proven track record as a low cost provider, we anticipate lowering operating costs by $15-$20 million over the next two years through cost reductions and synergies between the two operations.

3) As opposed to most specialty retailers, Casual Male has not experienced the highs and lows that historically affect the retail business. Comparable store sales over the last several years have not fluctuated to the degree of other specialty chains, due to the fact that basic casual sportswear dominates the sales of the chain. The Casual Male customer is typically a fashion follower, not a fashion leader.

4) It is important for our shareholders to understand that Casual Male was not in bankruptcy because they were not profitable. They, in fact, contributed in the area of $30 million of EBITDA over the last several years prior to bankruptcy. The footwear retail divisions of Casual Male, which were otherwise disposed of, were the real cause of their problems.

For our existing shareholders and new investors who followed us through the acquisition of Casual Male, they understand the incredible odds we faced in acquiring the company. We were able to raise almost $180 million in less than three weeks because you believed in us. We are sincerely thankful to all of you for your support. Today we stand as a $530 million company that is now truly in control of its destiny. The management team is ready to deliver what we have promised… a retailer built for growing shareholder value.

Regards,



David A. Levin
President and Chief Executive Officer

Dear Shareholders:

Outlined below are some of the details of our recently completed Casual Male transaction, along with highlights of the Casual Male and LPI business.

On May 14, 2002, we completed the acquisition of the Casual Male business for a purchase price of $170 million, plus the assumption of certain operating liabilities, after being selected the highest and best bidder at a bankruptcy court ordered auction held on May 1, 2002. We financed the transaction with the following new sources of capital:

	(in millions)	*% of Total*
Equity capital	$ 82.5	47%
Senior debt	40.0	26
Subordinated debt	35.5	20
Mortgage note assumption	12.0	7

More specifically, the Casual Male acquisition, excluding certain transaction costs and other related liabilities, was completed with funds provided by:

(i) Approximately $25.0 million of additional borrowings from our amended three year $120.0 million senior secured credit facility with the Company's bank, Fleet Retail Finance, Inc. ("FRFI");

(ii) $15.0 million in a three-year term loan with Back Bay Capital, a subsidiary of FRFI:

(iii) Proceeds from the private placement of $24.5 million principal amount of 12% senior subordinated notes due 2007, together with detachable warrants to acquire 1,715,000 shares of the Company's Common Stock, par value $0.01 per share ("Common Stock"), at an exercise price of $0.01 per share, and a second detachable warrant to acquire 1,176,000 shares of Common Stock at an exercise price of $8.50 per share:

(iv) Proceeds from the private placement of $11.0 million principal amount of 5% senior subordinated notes due 2007 provided by Kellwood Industries;

(v) Approximately $82.5 million of proceeds from the private placement of approximately 1.4 million shares of Common Stock and shares of newly designated Series B Convertible Preferred Stock("Series B Preferred Stock") (equivalent to approximately 18.0 million shares of Common Stock, conditioned upon shareholder approval for conversion). The Common Stock sale price and Series B Preferred Stock conversion price of $4.25 per share was calculated by taking the 30-day average closing price of Designs common stock prior to the effective commencement of the private placement :

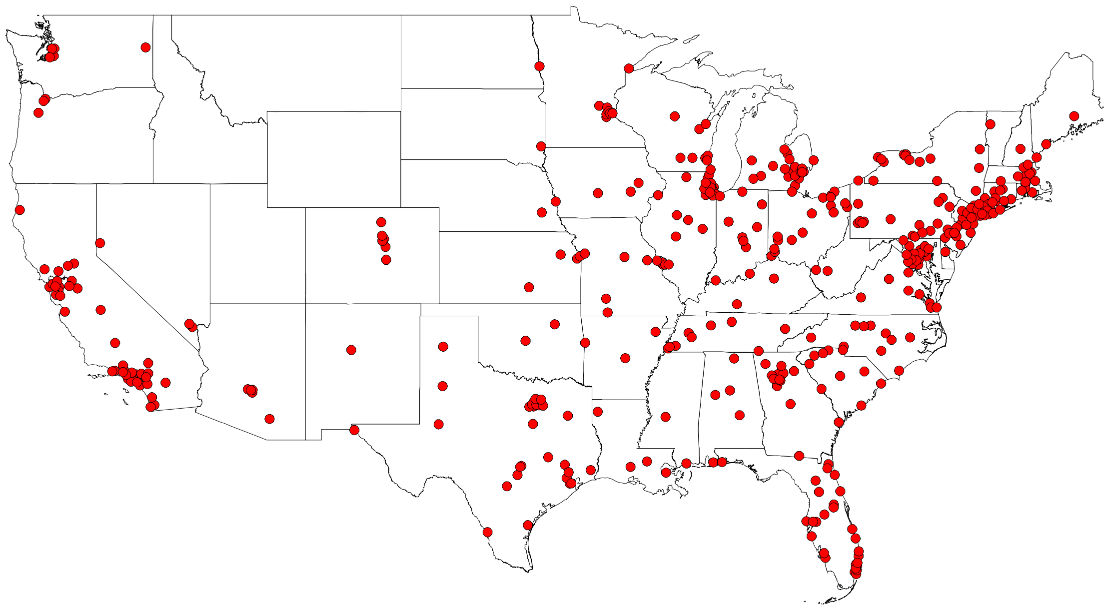
(vi) The assumption of a mortgage note in the principal amount of approximately $12.0 million on Casual Male's 750,000 square foot Headquarters in Canton, Massachusetts.

The ability to convert the Series B Preferred Stock and to exercise certain such warrants is subject to approval by the stockholders of the Company. The newly issued Common Stock and the Common Stock to be issued upon conversion of the Series B Preferred

Stock and the exercise of warrants are subject to certain rights to require registration under the Securities Act of 1933, as amended.

Our executive management team of Seymour Holtzman, Chairman, David Levin, Chief Executive Officer, and myself arranged the financing of the acquisition in a four-week timeframe - a testament to the strength of the Casual Male brand.

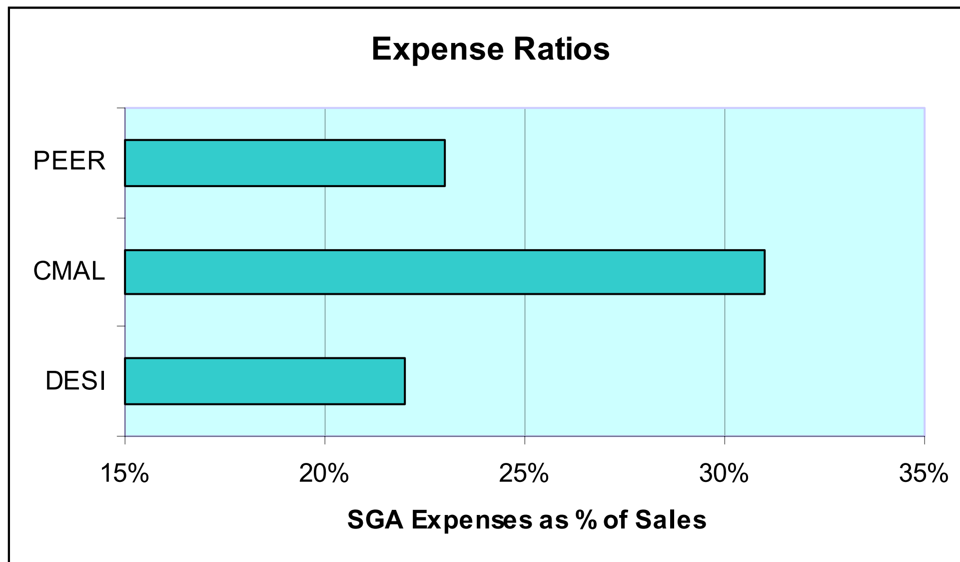
Casual Male is a national multi-channel retailer of men's casual wear apparel to the big and tall customer with 475 retail stores located in 44 states, a nationally distributed catalog, and an e-commerce website with collective sales of $330 million. NPD published a study quantifying the sales in the total men's big and tall apparel market at approximately $5-6 billion. Casual Male is by far the largest specialty apparel retailer in this market with the next largest competitor operating only 24 stores. We will pursue marketing opportunities to license the Casual Male brand and possibly to sell Casual Male branded merchandise in other retail venues to more fully capitalize upon the strength of the Casual Male brand.



Casual Male stores in the US

In addition to Casual Male's top line opportunities, we believe it also has significant upside with respect to its profitability. Casual Male's historical operating margins (before depreciation and amortization) approximate just over 6 to 7% (as a percentage of sales). Casual Male's expense margin (as a percentage of sales) approximates 31%; this compares to Design's expense margin of approximately 22% and compares to a specialty retail apparel peer group of 23%. In other words, Casual Male's expense structure has been very costly and leaves great room for improvement.. Much of Casual Male's inefficient cost structure is found in its corporate expenses, which approximate almost

14% of sales. We believe savings ranging from $15 to20 million in corporate overhead can be realized over the next two years as we implement cost reduction initiatives and integrate the Designs operation with Casual Male's business.



Casual Male's expense ratio is approximately 8-10 percentage points greater than Designs or its specialty apparel retail peer group, primarily due to its expensive corporate overhead structure

As these operating efficiencies are achieved, we expect the operating margins of Casual Male to expand to the mid-teens, more in-line with other specialty apparel retailers. *(operating margin is defined as earnings before depreciation and amortization, interest and taxes).*

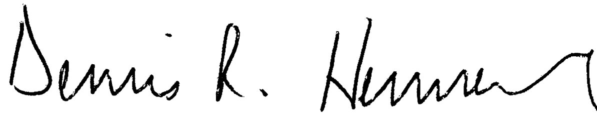
LP Innovations

LP Innovations ("LPI"), which the Company acquired as part of the Casual Male acquisition, is the first integrated provider of outsourced loss prevention services and system solutions. Based in Canton, Massachusetts with loss prevention field personnel located throughout the United States, LPI provides clients with a national capability to meet all of their loss prevention needs. LPI has grown rapidly over the past four years, from less than $300K in revenue in 1997 to $8.5 million in 2001. Having established a track record of successfully helping clients reduce shrink, and having built a national network of field personnel, we believe LPI is well positioned for its next growth phase.

LPI is the only provider of outsourced loss prevention solutions with point-of-presence in nearly every major retail market in the United States. There are presently only a handful of small, local outsourced loss prevention firms; none of whom can match LPI's geographic presence, retail industry contacts, experience, expertise, scope of service and focus on delivering a comprehensive loss prevention solution; all at single price per store.

The trend to outsource is clear, and LPI has, over the last four years, proven that it can deliver as evidenced by LPI's growing list of highly recognized and enthusiastic retail clients. That is why on June 11, 2002 the Company announced its intention to divest this company for the benefit of LPI and you, our shareholders. We are working toward this short-term goal of creating an exciting, progressive independent national loss prevention services company.

Thank you for your support,



Dennis Hernreich

Senior Vice President and Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 2, 2002 (Fiscal 2002) **Commission File Number 0-15898**

DESIGNS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-2623104**
(State or other jurisdiction of incorporation of principal executive offices)	*(IRS Employer Identification No.)*

66 B Street, Needham, MA	**02494**
(Address of principal executive offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value
(Title of each Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant, based on the last sales price of such stock on April 8, 2002, was approximately $44.4 million.

The registrant had 14,567,886 shares of Common Stock, $0.01 par value, outstanding as of April 8, 2002.

DOCUMENTS INCORPORATED BY REFERENCE
None.

DESIGNS, INC.

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Year Ended February 2, 2002

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PART I.

Item 1. *Business*

Summary

Designs, Inc. (together with its subsidiaries, the "Company") is a retailer specializing in selling quality branded apparel and accessories in outlet malls throughout the eastern part of the United States and Puerto Rico. For over 25 years, through a license agreement with Levi Strauss & Co., the Company has owned and operated retail outlet stores selling exclusively Levi's® branded merchandise. The Company is expanding upon its core competency of operating branded retail stores in factory outlet malls for branded manufacturers.

In January 2002, the Company entered into a license agreement with Candie's, Inc. ("Candie's"), a publicly owned company and a leading designer and marketer of young women's footwear, apparel and accessories. Under this license agreement, the Company plans, over the next five years, to open and operate 75 Candies® branded retail stores in outlet malls and value centers throughout the United States. The Company plans to open 11 Candies® branded stores in outlet malls during the fiscal year ending February 1, 2003 ("fiscal 2003").

Subsequent to the fiscal year ended February 2, 2002 ("fiscal 2002"), the Company announced that it had entered into a joint venture with EcKo Complex, LLC ("EcKo"), a privately held company and leading design-driven lifestyle brand targeting young men and women. EcKo has worldwide annual sales exceeding $200 million. Under this joint venture agreement, the Company will exclusively open and operate 75 EcKo® branded outlet stores throughout the United States over a six-year period. The basic terms of the joint venture agreement, which is the Company's preferred business structure with branded manufacturers, provides for sharing the operating profits where the Company will hold a 50.5% interest in the venture with the remaining 49.5% interest being held by EcKo. The agreement requires EcKo to contribute the inventory requirements for the retail stores and provide the branded trademarks and branded knowledge, and requires the Company to contribute its retail operational expertise and operating expenses for the retail stores. The Company plans to open 5 EcKo® branded outlet stores during fiscal 2003.

The Company is continuing discussions with several other manufacturers as it strives to become a premier operator of branded retail outlet stores. The Company believes that manufacturers will find the Company as their logical solution for an outlet channel of distribution for their branded merchandise.

Store Expansion

The Company's plan for fiscal 2003 is to open a total of 15 to 20 new outlet stores, 16 of which are scheduled to open in time for the important back-to-school selling season. The Company expects to open eleven new Candie's® junior footwear and apparel outlet stores by mid-year. Four of these stores will be built utilizing space from the Company's existing Levi's®/Dockers® stores which are located in outlet centers in New York, New England and Puerto Rico. Several of the Company's existing higher volume Levi's®/Dockers® outlet stores currently average 13,000 to 15,000 square feet which is more than the Company's ideal prototype store size of 9,000 square feet. By utilizing this excess space for the new Candie's® outlet stores, the Company can leverage expenses while increasing profitability. The remaining seven Candie's® outlet stores to be open will include five in California, one in Las Vegas, Nevada and one in Miami, Florida.

The Company plans to open its first EcKo® outlet stores by the back-to-school season, of which two stores will be built utilizing space in existing Levi's®/Dockers® stores. Other new store locations may be planned for other branded manufacturers with which the Company is having discussions regarding potential joint venture arrangements, similar to the arrangement with EcKo.

Capital expenditures for fiscal 2003 are expected to be approximately $4.0 million, of which $2.5 million relates to the expansion plan discussed above. This amount is net of committed landlord allowances that the Company expects to receive.

The Company continually evaluates the performance of its stores and may, from time to time, decide to close or reduce the size of or remodel certain store locations.

History

The Company, which started in 1977 and subsequently went public in 1987, operated exclusively Levi Strauss & Co. branded outlet and full retail priced mall-based stores until fiscal 1996. In fiscal 1996, the Company embarked on a private label diversification strategy, acquiring the Boston Traders® brand and 33 existing Boston Traders® outlet stores. By fiscal 1997 the Company had abandoned its private label strategy and had begun to liquidate its private label merchandise and the Boston Traders® stores. The Company incurred approximately $85 million in operating losses during the fiscal years 1998, 1999 and 2000 as a result of this failed private label diversification strategy.

In October 1999, the stockholders of the Company elected a new board of directors and then in April 2000 appointed a new Chairman of the Board in addition to a new Chief Executive Officer and President of the Company. The following September 2000 a new Chief Financial Officer was also hired. Under new management, the Company significantly reduced its selling, general and administrative expenses, reduced its inventory shrink rates from almost 4% to just over 2%, invested substantial amounts of capital in its inventory management systems, remodeled the Company's most profitable stores and renewed the Company's strategy of marketing and selling branded merchandise in the outlet mall arena, thereby expanding its retail presence. The Company has had significant improvement in EBITDA (earnings before interest, taxes, depreciation and amortization) since this management change.

Store Formats

In fiscal 2002, the Company owned stores operating under the names, "Levi's® Outlet by Designs," "Dockers® Outlet by Designs," "Levi's®/Dockers® Outlet by Designs." In January 2002, in conjunction with the Company entering into a license agreement with Candie's, the Company also acquired an existing Candie's® Outlet store located in Wrentham, Massachusetts.

During fiscal 2002, the Company continued to update its existing chain of stores to its updated store proto-type, the Levi's®/Dockers® Outlet by Designs store. The Company's preferred proto-type, which is generally 9,000 square feet, is a combined Dockers® Outlet store and Levi's® Outlet store that separately displays each brand in its own unique environment. This differs from the Company's older Levi's® Outlet store format, which averages 10,000 to 12,000 square feet and has no prominent marketing of the individual Levi's®, Dockers® and Slates® brands. By updating the store fixtures and enhancing visual merchandising, the strong identity of each brand is maximized for the customer. The total average square footage of the chain has decreased to approximately 9,800 as the Company continues to open new stores and remodel its existing stores to the smaller, more profitable proto-type.

At February 2, 2002, the Company operated 102 stores of which 48 are in the combined Levi's®/Dockers® Outlet by Designs format. The Company also operated 11 Dockers® Outlet stores, which sell exclusively Dockers® and Slates® brand products, and 13 Levi's® Outlet stores, which sell exclusively Levi's® brand products. At year end, the Company also owned one Candie's® Outlet store. The remaining 29 stores are the older Levi's® Outlet stores that carry a combination of Levi's®, Dockers® and Slates® apparel. The Company plans to continue to update its store base, where feasible, by remodeling its remaining older stores to the combined format, relocating or closing stores and combining the individual Dockers® and Levi's® outlet stores. Several of the Company's smaller Dockers® and Levi's® only stores are located in the same outlet center and are adjacent to each other. Through fiscal 2002, the Company had combined six pairs of its standalone Dockers® and Levi's® outlet stores that were located in the same mall into combined Levi's®/Dockers® Outlet stores.

Customer Base

The Company's Levi's® and Dockers® Outlet stores continue to attract the loyal Levi's®, Dockers® and Slates® brand customers as well as foreign travelers looking for these well-known brands. The product selection offered in these stores is designed to satisfy the casual apparel needs of customers in all groups and income brackets.

The Candie's® brand, consisting of fashion and casual footwear, is designed primarily to attract women and girls aged 6 to 35. The brand is synonymous with young, fun and fashionable footwear marketed by innovative advertising and celebrity spokespersons. The Company believes that Candie's has developed its merchandise into a strong footwear brand appealing to women and girls in this generation "Y" demographic.

The Company believes that its EcKo® Unltd. outlet stores will represent an opportunity in the outlet marketplace for the underdeveloped young men's and junior market. EcKo® is considered one of the few truly cross-over youth brands appealing to both the urban and suburban youth with a core customer between the ages of 14 to 24 years of age.

Merchandising

The merchandising department is composed of buyers, merchandise buyers and merchandise allocators, all playing a key role in deciding the appropriate merchandise assortments to purchase in the stores, the appropriate timing and quantities for the stores, with adequate replenishment quantities for the stores in the warehouse, and in determining the appropriate quantities for each store after considering regional, demographic data, and historical patterns of each and every store. The Company has separate merchants for each of the brands that the Company sells. The Company believes that this is important as each brand has different merchandise characteristics and requires separate merchandise plans, distribution and allocation methodologies to maximize the respective brand's performance in the stores.

Levi's®/Dockers®/Slates® brands

The Company offers an exclusive selection of Levi Strauss & Co. brands of merchandise which include Levi's®, Dockers® and Slates® brands. The Levi Strauss & Co. brands target customers in all age groups and income levels. The Levi's® brand includes various men's, women's and kids' jeanswear products as well as an assortment of woven and knit tops and accessories. The Dockers® brand includes a broad range of casual pants and are complemented by a variety of tops and seasonal pant products in a range of fits, fabrics, colors and styles. The Dockers® brand is primarily targeted towards the casual workplace attire customer. The Slates® brand collection of pants, shirts, sweaters and outerwear combines contemporary styles with modern fabrics and colors. The Slates® brand for both men and women targets the 25- to 34-year old consumers' desire for a younger and more sophisticated casual look.

The Company's merchandise sales performance of its Levi's®/Dockers® stores is dependent upon the acceptance and growth of the Levi Strauss & Co. brands of merchandise. Since 1996, Levi Strauss & Co. sales have declined 35% from approximately $7.1 billion to $4.3 billion for that company's fiscal year ended November 25, 2001. The Levi Strauss & Co. brands have significant competition across all brands. Private labels which include VF Corporation, marketer of the Lee, Wrangler, and Rustler brands; fashion labels including names such as Polo Ralph Lauren Corporation, Calvin Klein, Nautica Enterprises, Guess?, Inc. and Tommy Hilfiger Corp.; vertically integrated specialty stores such as Gap, Inc., Abercrombie & Fitch, American Eagle Outfitters, Inc., J. Crew and Eddie Bauer, Inc.; lower-volume but high visibility fashion-forward jeanswear brands that appeal to the teenage market, including FUBU, JNCO, Lucky, MUDD and Diesel brands; casual wear manufacturers, including Haggar Corp., Liz Claiborne, Inc., and Savane International Corp.; retailer private labels including J.C. Penney's Arizona brand and Sears' Canyon River Blues and Canyon River Khakis brands; and mass merchandisers, including Wal-Mart Stores, Inc., Target and Kmart. Levi Strauss & Co. has placed great emphasis on its business turnaround strategy through supply chain improvements, product improvements, product innovation, new marketing campaigns and improved retail presentation.

Through the Company's license agreement with Levi Strauss & Co., merchandise product is made available to the Company throughout the year. The Company has worked closely with Levi Strauss & Co. to make wider assortments of its brand offerings regularly available to the Company. The Company has historically purchased manufacturing overruns, discontinued lines and irregulars from Levi Strauss & Co. at wholesale cost which has historically been much less than the wholesale cost of other merchandise purchases from Levi Strauss & Co. The Company's gross margins have been influenced in part by the varying availability of this lower wholesale cost merchandise from Levi Strauss & Co.

Candies® brand

Candie's® footwear features a variety of styles. The retail price of Candie's® footwear generally ranges from $30 - $80 for women's styles and $35 - $50 for girls' styles. Four major and two interim times per year, as part of its Spring and Fall collections, 30 to 50 different styles are designed and marketed. Approximately one-third of Candie's® women's styles are "updates" of the their most popular styles from prior periods, which they consider their "core" products. Approximately three-quarters of the girls' styles are versions of the best selling women's styles and the remaining one-quarter are designed specifically for the girls' line.

Designers from Candie's analyze and interpret fashion trends and translate such trends into shoe styles consistent with the Candie's® image and price points. Fashion trend information is compiled by the Candie's design team through various methods, including travel to Europe and throughout the world to identify and confirm seasonal trends and shop relevant markets, utilization of outside fashion forecasting services and attendance at trade shows. Each season, subsequent to the final determination of that season's line by the design team and management (including colors, trim, fabrics, constructions and decorations), members of the Candie's design team will travel to their various manufacturers to oversee the production of the initial sample lines.

EcKo® brand

The Company's EcKo® Unltd. outlet stores will be geared towards the youth market offering men and women a broad selection of merchandise that identifies with everything from hip-hop to extreme sports, and street-wear to fraternity wear. EcKo's core menswear line consists of fleece, twill and denim bottoms, wovens, printed tee shirts, shirts, knits and sweaters.

Distribution

The Company operates two distribution centers, both located in Orlando, Florida, which it uses to regulate the flow of merchandise to its stores. The Company's distribution strategy is (1) to maintain warehouse facilities that regulate the flow of merchandise to the stores in order to facilitate improved store-level inventory management, and (2) to flow through (cross-dock) the higher volume product in order to maintain optimum inventory levels in the stores and maximize sales.

Prior to the Company opening its own distribution centers in fiscal 2001, much of the Company's merchandise was shipped directly to the stores, which resulted in an unbalance of merchandise throughout the chain.

In fiscal 2002, the Company partnered with United Parcel Services ("UPS") to improve upon its distribution methods and reduce shipping costs as a result of not having to use third party trucking companies. By utilizing UPS, the Company is able to track all deliveries from the warehouse to its individual stores and gives the Company the added visibility to the status of in-transit shipments.

Trademark License Agreements and Joint Ventures

Levi Strauss & Co. Trademark License Agreement

The Company operates under a trademark license agreement with Levi Strauss & Co., which was most recently amended in October 1998 (as amended, the "Levi Outlet License Agreement"). This Levi Outlet License Agreement authorizes the Company to use certain Levi Strauss & Co. trademarks in connection with the operation of the Company's Levi's® Outlet by Designs and Dockers® Outlet by Designs stores in 25 states in the eastern portion of the United States and in Puerto Rico. Subject to certain default provisions, the term of the Levi 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). The Levi Outlet License Agreement provides that the Company has the opportunity to extend the term of the license associated with one or more of the Company's older Levi's® Outlet by Designs stores by either renovating the store or replacing the store with a new store that has updated format and fixturing. In order to extend the license associated with each of the Company's then 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. Through the end of fiscal 2002, the Company had completed remodels and or relocations on 30 of the 59 older outlet stores. As leases expire, the Company may lose the right to use the Levi's® trademark in connection with certain Levi's® Outlet by Designs stores and Dockers® Outlet by Designs stores. At February 2, 2002, the average remaining lease term (including extension options) of the Company's Levi's® Outlet by Designs and Dockers® Outlet by Designs stores was approximately 8.3 years.

Candie's Trademark License Agreement

In January 2002, the Company entered into a similar trademark license agreement with Candie's, Inc., which authorizes the Company to use certain Candie's® trademarks in connection with the operation of the Company's Candie's® Outlet stores. The Candie's license agreement provides the Company with the exclusive right to open and operate Candie's® branded stores in outlet malls and value centers throughout the United States and Puerto Rico as long as the Company opens the requisite number of outlet stores per year, and reaches 75 outlet stores in five years. Generally, to maintain the exclusivity in the value centers, the Company must open approximately five stores per year. If the Company does not maintain the store opening schedule required in the license agreement, the Company may lose the right to operate the existing stores within an exclusive radius until the expiration of the term. The license agreement also establishes that product purchased from Candie's will be priced according to a cost-plus formula. Among other terms of the license agreement, the Company could source its own Candie's® merchandise product for the retail stores if Candie's or its licensees cannot supply the appropriate merchandise assortments or quantities, as deemed by the Company.

Joint Venture Agreement with EcKo Complex, LLC

Subsequent to fiscal 2002, the Company entered into a joint venture agreement in principle with EcKo Complex, LLC under which the Company, a 50.5% partner, would own and manage retail outlet stores bearing the name EcKo Unltd. and featuring EcKo® branded merchandise. EcKo, a 49.5% partner, will contribute to the joint venture the use of its trademark and the merchandise requirements, at cost, by the retail outlet stores. The Company will contribute all real estate and operating requirements of the retail outlet stores, including but not limited to, the real estate leases, payroll needs and advertising. Each partner will share in the operating profits of the joint venture, after each partner has received reimbursement for its cost contributions. Under the terms of the agreement, the Company must maintain a prescribed store opening schedule and open 75 stores over a six-year period in order to maintain the joint venture's exclusivity. At certain times during the term of the agreement, the Company may exercise a put option to sell its share of the retail joint venture, and EcKo has an option to acquire the Company's share of the retail joint venture at a price based on the performance of the retail outlet stores.

Trademarks

"Dockers®," "Levi's®" and "Slates®" are registered trademarks of Levi Strauss & Co. "Candie's®" is a registered trademark of Candie's, Inc. "EcKo®" is a registered trademark of EcKo Complex, LLC.

Store Operations

The Company currently employs one Senior Vice President of Operations and one Director of Stores. In order to provide management development and guidance to individual store managers, the Company employs 13 district managers. Each district manager is responsible for hiring and developing store managers at the stores assigned to that district manager's area and for the sales and overall profitability of those stores. District managers report directly to the Director of Stores.

The Company's stores utilize interior design and merchandise layout plans designed by the Company's visual merchandising team which are specifically designed to promote customer identification as a specialty outlet store selling quality branded apparel and accessories. The merchandise layout is further customized by store management and the Company's visual merchandising department to suit each particular store location. The stores prominently display Levi's®, Dockers®, Slates® and Candie's® brand logos and utilize distinctive promotional displays. The Company uses Levi Strauss & Co. logos and trademarks on store signs with the permission of Levi Strauss & Co. and similarly uses Candie's Inc. logos and trademarks on store signs in its Candie's® Outlet stores.

In fiscal 2001, in conjunction with the Company's initiatives to improve shrink and inventory management, the Company out-sourced its loss prevention department to LP Innovations, Inc., a leader in loss prevention management. By utilizing exception-based reporting software in addition to implementing stronger and more effective loss prevention controls, the Company has been able to reduce shrink from 4% to 2% over an approximate two year period.

Customer Service & Training

"Designs University" was established in fiscal 1996 to offer associate training and development programs throughout the organization. Sales associate expectations are established at all levels of training, beginning with the Sales Associate Development Program. This program introduces the associate to the Company's operational policies, product information and customer service objectives. Through this program, associates are taught that servicing the customer is the highest priority. Management believes that sales associates are trained towards accomplishing the goal of reinforcing the customer's perception of the Company's stores as branded specialty stores and of differentiating its stores from those of the Company's competitors.

All members of store management participate in the Store Management Development Program. Associates learn how to perform critical management functions required to successfully operate a store. The Store Management Development Program focuses on fundamental operational procedures, expense control and personnel management.

Each Levi's® Outlet by Designs and Dockers® Outlet by Designs store employs approximately 17 associates. The Company expects that each of the new Candie's® Outlet stores and EcKo® Unltd. Outlet stores will employ approximately 10 associates. Store staffing typically includes a store manager, one or more assistant managers and shift supervisors, and a team of full-time and part-time sales associates. Store manager candidates or assistant manager candidates may also be included on the team in specific stores. The store management team is responsible for all operational matters in the store, including the hiring and training of sales associates.

During fiscal 2003, the Company is standardizing its store managerial functions and staffing requirements among stores, depending upon store size and sales volumes. The Company has established sales productivity goals among stores as well as scheduling sales staff based on the hourly sales volume at each store. As a result, the Company expects to see improvements in fiscal 2003 in its store labor productivity.

Management Information Systems

The Company's management information systems, located at both its corporate headquarters in Needham, Massachusetts and all of its retail stores, consist of a full range of retail merchandising and financial systems which include merchandise planning and reporting, distribution center processing, inventory allocation, in-store systems, sales reporting, and financial processing and reporting. The Company's primary business applications, JDA Merchandising Management Systems and Lawson Financial Systems, operate on an IBM AS/400 platform.

All of the Company's stores have point-of-sale terminals supplied by IBM and supported by point-of-sale business application provided by CRS, that captures daily transaction information by item, color and size (SKU). The Company utilizes barcode technology in tracking sales, inventory and pricing information. Communication between the corporate office and all stores is facilitated on a daily basis through the use of an electronic mail system. The JDA Merchandising Management System is updated daily with all store transactions and provide daily sales, inventory, pricing and merchandise information and management reports in assisting the Company operate its retail business. Its merchandising system applications also facilitate the placement of purchase orders and their tracking, primarily through electronic data interchange (EDI). The Company evaluates this information, together with weekly reports on merchandise statistics, prior to making merchandising decisions regarding reorders of fast-selling items and the allocation of merchandise.

In fiscal 2001, the Company purchased JDA Arthur, a planning and allocation system that should further enhance the Company's inventory management and visibility. The added inventory management applications were installed and implemented during fiscal 2002. In addition, the Company will be enhancing its warehouse management systems either through the further development of its existing system with JDA, or through the purchase of a warehouse management application from a third-party provider. These added applications should greatly enhance the Company's inventory management capabilities.

The Company utilizes a client-server based network with mixed NT and Novell environment running on a local area network to communicate and work-share within its corporate headquarters. The Company also utilizes the services of ADP, an outside payroll processing provider, to prepare, distribute and report its weekly payroll.

Advertising

The Company relies on the visibility and recognition of the Levi's®, Dockers® and Slates® and most recently the Candie's® brand names, as well as the natural flow of traffic that results from locating stores in areas of high retail activity including destination outlet centers and regional malls. The Levi Outlet License Agreement with Levi Strauss & Co. limits the Company's advertising ability to billboards and specific outlet center promotions.

The Company has a complete visual merchandising program that, through the use of in-store signage, focuses on product knowledge and marketing of the individual Levi's®, Dockers®, Slates® and Candie's® brands and communicates its value to the customers. During fiscal 2002, the Company updated its visual marketing programs by redesigning its communication and education in-store signage for better guidance of the customers through the shopping experience. Also during fiscal 2002, the Company introduced a gift card program to its customers in which gift certificates issued in the form of credit cards are sold to customers for redemption at a later date. Balances and transaction information are stored electronically and communicated to the customers on their purchase receipts.

In fiscal 2003, the Company intends to introduce a customer loyalty program under a similar concept, whereby frequent customers will be rewarded for their loyalty to Designs operated stores.

Competition

The United States casual apparel market is highly competitive with many national and regional department stores, specialty apparel retailers and discount stores offering a broad range of apparel products similar to those sold by the Company. The Company considers any casual apparel manufacturer operating in outlet parks throughout the United States to be a competitor in the casual apparel market.

The Company's business involves the sale of branded apparel and accessories sold by or manufactured under license from Levi Strauss & Co. Levi Strauss & Co. is involved in the highly competitive fashion apparel industry. Levi's® brand jeans have been impacted by the increased competition from private labels as well as fashion jeans market entrants and by a decrease in national sales trends of Levi's® brand products.

Management believes that the Company competes with other apparel retailers by offering superior selection, quality merchandise, knowledgeable in-store service and competitive price points. The Company stresses product training with its sales staff and, with the assistance of merchandise materials from its manufacturers, it can provide its sales personnel with substantial product knowledge training across all product lines.

As it relates to the Company's future Candie's® Outlet stores, the footwear industry is extremely competitive in the United States and has substantial competition in each of its product lines from, among other brands, Skechers, Steve Madden and Esprit. In general, competitive factors include quality, price, style, name recognition and service. The presence in the marketplace of various fashion trends and the limited availability of shelf space also can affect competition.

Employees

As of February 2, 2002, the Company employed approximately 1,500 associates, of whom 950 were full-time personnel. The Company hires additional temporary employees during the peak Fall and Holiday seasons.

All qualified full-time employees are entitled, when eligible, to life, medical, disability and dental insurance and to participate in the Company's 401(k) retirement savings plan. Store managers, district managers, and corporate office employees are eligible to receive incentive compensation subject to the achievement of specific performance objectives related to sales, profitability and expense control. District managers and certain corporate office employees are also entitled to use an automobile provided by the Company or to receive an automobile allowance. Sales personnel are compensated on an hourly basis and, generally, receive no commissions, but from time to time are eligible to earn sales incentive payments from individual store sales contests. District managers, store managers and certain corporate office employees have been granted stock options to purchase shares of the Company's common stock, par value $0.01 per share ("Common Stock"). None of the Company's employees are represented by any collective bargaining agreement.

Item 2. *Properties*

As of February 2, 2002, the Company operated 102 stores operating under the names Levi's®/Dockers® Outlet by Designs, Levi's® Outlet by Designs, Dockers® Outlets by Designs and its first Candie's® Outlet store. All of these stores are leased by the Company directly from outlet center owners. In the past two years, the Company has decreased the average square footage of the chain to approximately 9,800 as a result of opening new smaller size stores and remodeling some of its existing stores to a smaller, more profitable prototype. The store leases are generally five years in length and contain renewal options extending their terms to between 10 and 15 years. Most of the Company's outlet store leases provide for annual rent based on a percentage of store sales, subject to guaranteed minimum amounts.

Sites for store expansion are selected on the basis of several factors intended to maximize the exposure of each store to the Company's target customers. These factors include the demographic profile of the area in which the site is located, the types of stores and other retailers in the area, the location of the store within the center and the attractiveness of the store layout. The Company also utilizes financial models to project the profitability of each location using assumptions such as the center's sales per square foot averages, estimated occupancy costs and return on investment requirements. The Company believes that its selection of locations enables the Company's stores to attract customers from the general shopping traffic and to generate its own customers from surrounding areas.

The lease for the Company's headquarters office, at 66 B Street, Needham Massachusetts, which began in November 1995, is for a period of ten years. The lease provides for the Company to pay all occupancy costs associated with the land and the 80,000 square foot building. Beginning in fiscal 1998, the Company began subleasing excess office space as a result of its downsizing. As of February 2, 2002, the Company had two subtenants that collectively lease approximately 29,800 of the 80,000 square feet. These leases are for five-year terms, expiring in March and July 2003.

On November 13, 2000, the Company announced that it had entered into an option agreement with the landlord of its corporate headquarters. The agreement provided the landlord with the option, if exercised within 15 months from November 2000, which was the date of the agreement, to terminate the Company's lease for its corporate headquarters, which currently will expire on January 31, 2006. If such option, which terminated on February 1, 2002, had been exercised by the landlord, then the Company would have been entitled to receive $8.9 million for vacating the leased property.

In fiscal 2001, the Company opened its own 60,000 square foot distribution center located in Orlando, Florida. The Company has leased the property for five years through August 14, 2005 at which time the Company has the option to extend its lease for an additional five years. The lease also contains certain exit rights, which would allow the Company to terminate the lease on August 14, 2002 with six months prior notice. In fiscal 2002, the Company entered into another lease agreement to lease an additional 16,000 square feet of warehouse space in Orlando, Florida. The lease for the additional space expires March 31, 2005 and also contains certain exit rights, which would allow the Company to terminate the lease on March 31, 2003 with three months prior notice. In fiscal 2002, the Company also ended its usage of a 30,000 square foot third-party distribution center in Mansfield, Massachusetts, which it had used to distribute merchandise until September 2001.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Capital Expenditures."

Item 3. *Legal Proceedings*

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

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

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

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

PART II.

Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters*

The Company's Common Stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol "DESI."

The following table sets forth, for the periods indicated, the high and low per share closing sales prices for the Common Stock, as reported on the Nasdaq consolidated reporting system.

Fiscal Year Ended February 2, 2002	High	Low
First Quarter	$ 3.0000	$ 1.8750
Second Quarter	5.6000	2.7500
Third Quarter	4.6300	2.0200
Fourth Quarter	4.1900	2.3000

Fiscal Year Ended February 3, 2001	High	Low
First Quarter	$ 1.5000	$ 1.0938
Second Quarter	2.1250	1.1875
Third Quarter	2.5625	1.9375
Fourth Quarter	2.4688	2.0000

As of April 8, 2002, based upon data provided by independent shareholder communication services and the transfer agent for the Common Stock, there were approximately 285 holders of record of Common Stock.

The Company has not paid and does not anticipate paying cash dividends on its common stock. For a description of financial covenants in the Company's loan agreement that may restrict dividend payments, see Note C of Notes to Consolidated Financial Statements.

Item 6. *Selected Financial Data*

	Fiscal Years Ended [1]				
	February 2, 2002 (Fiscal 2002)	February 3, 2001 (Fiscal 2001)	January 29, 2000 (Fiscal 2000)	January 30, 1999 (Fiscal 1999)	January 31, 1998 (Fiscal 1998)
	(IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)				
INCOME STATEMENT DATA:					
Sales	$ 195,119	$ 194,530	$ 192,192	$ 201,634	$ 265,726
Gross profit, net of occupancy costs	47,221	54,985	47,440 [4]	42,249 [5]	38,358 [6]
Provision for impairment of assets, store closing and severance	--	107	14,535 [4]	15,729 [5]	21,600 [6]
EBITDA [2]	7,478	12,671	(2,569)	(20,659)	(34,945)
Pre-tax income (loss)	175	5,488	(10,278) [4]	(29,269) [5]	(46,562) [6]
Net income (loss)	(7,881) [3]	3,216	(12,493)	(18,541)	(29,063)
Earnings (loss) per share- basic	$ (0.54)	$ 0.20	$ (0.78)	$ (1.17)	$ (1.86)
Earnings (loss) per share- diluted	$ (0.54)	$ 0.20	$ (0.78)	$ (1.17)	$ (1.86)
Weighted average shares outstanding For earnings per share- basic	14,486	16,015	16,088	15,810	15,649
Weighted average shares outstanding For earnings per share –diluted	14,486	16,292	16,088	15,810	15,649
BALANCE SHEET DATA:					
Working capital	$ 13,277	$ 16,306	$ 19,624	$ 24,078	$ 42,104
Inventories	57,734	57,675	57,022	57,925	54,972
Property and equipment, net	20,912	18,577	16,737	17,788	35,307
Total assets	90,901	95,070	95,077	99,317	116,399
Shareholders' equity	42,414	49,825	52,269	63,956	82,380
OPERATING DATA:					
Net sales per square foot	$ 195	$ 192	$ 190	$ 187	$ 220
Number of stores open at fiscal year end	102	102	103	113	125

(1) The Company's fiscal year is a 52 or 53 week period ending on the Saturday closest to January 31. The fiscal year ended February 3, 2001 included 53 weeks.

(2) The Company defines EBITDA as Net Income before Taxes, Interest expense net and Depreciation and amortization.

(3) In the fourth quarter of fiscal 2002, the Company recorded a special non-cash charge of $8.0 million to reduce the carrying value of certain deferred tax assets. Due to the general weakness of the economy during fiscal 2002, which resulted in reduced earnings from fiscal 2001, the full realizability of certain tax assets can not be assured, accordingly the Company established additional reserves against those assets. As the Company's profitability improves, either from improved performance in its Levi's®/Dockers® stores, or from its roll-out of the Candies®, EcKo®, and other brands, the Company may have the ability to reinstate the full value of its deferred tax assets. Conversely, the amount of the deferred tax assets considered realizable could be reduced in the near term if projections of future taxable income during the carryforward period are reduced or if actual results are less than projections.

(4) Pre-tax loss for fiscal 2000 includes the $15.2 million charge taken in the fourth quarter related to inventory markdowns, the abandonment of the Company's Boston Traders® trademark, severance, and the closure of the Company's five remaining Designs/BTC™ stores and its five Buffalo® Jeans Factory stores. Of the $15.2 million charge, $7.8 million, or 4.1% of sales, is reflected in gross margin. The pre-tax loss for fiscal 2000 also includes $717,000 of non-recurring income related to excess reserves from the fiscal 1999 restructuring program.

(5) Pre-tax loss for fiscal 1999 includes the $13.4 million charge taken in the third quarter related to closing 30 unprofitable stores. Also included in the pre-tax loss for fiscal 1999 is the $5.2 million charge related to the closing of one Designs store, three BTC™ stores and four Boston Traders® outlet stores, all eight of which were closed in fiscal 2000. Of the $5.2 million charge, $800,000, or 0.4% of sales, is reflected in gross margin. In addition, the Company recognized $2.9 million in restructuring income in the fourth quarter which was the result of favorable lease negotiations associated with the original estimated $13.4 million charge.

(6) Pre-tax loss for fiscal 1998 includes the $20 million charge taken in the second quarter related to the Company's strategy shift and the fourth quarter charge of $1.6 million for the Company's reduction in work force. Of the $20 million charge, $13.9 million, or 5.2% of sales, is reflected in gross margin.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following table provides a five-year history of the total sales results of the Company, together with a summary of the number of stores in operation and the change in the Company's comparable store sales. "Changes in comparable store sales" measures the percentage change in sales in comparable stores, which are those stores open for at least one full fiscal year.

	FISCAL YEARS ENDED (1)				
	Feb. 2, 2002 (Fiscal 2002)	Feb. 3, 2001 (Fiscal 2001)	Jan. 29, 2000 (Fiscal 2000)	Jan. 30, 1999 (Fiscal 1999)	Jan. 31, 1998 (Fiscal 1998)
Total Sales (In Thousands)	$ 195,119	$ 194,530	$ 192,192	$ 201,634	$ 265,726
Number of stores in operation at end of the fiscal year:					
Store Type					
Levi's® Outlet and Dockers® Outlet by Designs	101	102	103	95	59
Candies® Outlet	1				
Store Concepts closed:					
Designs and BTC™ (2)	-	-	-	9	22
Buffalo Jeans® Factory Outlets(2)	-	-	-	5	-
Boston Trading Co.® (2)	-	-	-	-	11
Boston Traders® outlets(2)	-	-	-	4	12
Joint Venture:					
Original Levi's Stores™(2)	-	-	-	-	11
Levi's® Outlet stores (2)	-	-	-	-	11
Total stores	102	102	103	113	126
Comparable stores	96	92	87	80	112
Changes in total sales	0%	1%	(5%)	(24%)	(8%)
Changes in comparable store sales	(4%)	(4%)	(1%)	(18%)	(10%)

(1) The Company's fiscal year is a 52 or 53 week period ending on the Saturday closest to January 31. The fiscal year ended February 3, 2001 covered 53 weeks. Comparable store sales for fiscal 2001 were based upon 52-week comparisons.
(2) As part of store closing programs in fiscal 1998, 1999 and 2000, the Company closed all of its non-profitable store concepts.

RESULTS OF OPERATIONS

SALES

Sales for fiscal 2002 were $195.1 million for the 52-week period compared with sales of $194.5 million for the 53-week period of fiscal 2001. On a comparable basis, total sales of $195.1 million for fiscal 2002 increased 1.5% when compared to $192.2 million for the corresponding 52-week period in fiscal 2001. There were 53 weeks in fiscal 2001 and 52 weeks in fiscal 2002 and 2000. Comparable store sales for fiscal 2002 decreased 3.9 %.

Fiscal 2002 was a difficult year for the retail industry due to the general economic conditions and the tragic events of September 11, 2001. In an effort to manage inventory levels and improve its sales trends, the Company significantly increased its levels of promotional activities during the second half of fiscal 2002. The impact of this aggressive promotional posture, although negative to the Company's gross margin, significantly benefited its sales trends in the second half of fiscal 2002.

Sales for fiscal 2001 were $194.5 million, an increase of 1.2% when compared with fiscal 2000 sales of $192.2 million. The increase in sales in fiscal 2001, as compared to fiscal 2000, was due to an additional week of sales of approximately $2 million and sales from new and remodeled stores offset slightly by a comparable store sale decrease of 3.8% from the prior year. The comparable store sales decrease in fiscal 2001 of 4% was due primarily to lower sales in men's Levi's® brand jeans and tops resulting from limited availability and reduced demand for Levi's® brand products. This sales decrease was partially offset by increased sales of women's Levi's® brand jeans and men's and women's Dockers® brand apparel.

GROSS MARGIN
Gross margin, which includes occupancy costs, was 24.2% for fiscal 2002 as compared with 28.3% in fiscal 2001. The 4.1 percentage point decrease in margin was primarily the result of the Company's aggressive promotional activity, which resulted in a significantly higher markdown rate as compared to the prior year. The gross margin rate for fiscal 2002 was also negatively impacted by a decrease in initial margins related to increased costs of certain product lines. The Company was able to partially offset these decreases through its improvements in inventory shrink.

The gross margin rate for fiscal 2001 of 28.3% was an improvement of 3.6 percentage points when compared with 24.7% in fiscal 2000. The improved gross margin was primarily due to a substantial markdown reserve recorded in fiscal 2000 of $7.8 million, which was not recurring in fiscal 2001. In addition, through favorable lease negotiations with several existing landlords, the Company has reduced its occupancy costs as a percentage of sales by 0.3 percentage points. These favorable improvements in gross margin were partially offset by a slight deterioration in initial margins due to increasing costs on merchandise purchases. During fiscal 2001, in an effort by the Company to provide full merchandise assortments, the Company's average cost of merchandise purchased increased while retail selling prices remained constant. Merchandise margins in fiscal 2000 included a LIFO benefit of approximately $558,000.

In fiscal 2003, the Company anticipates that its gross margin rate will continue to be negatively impacted by more aggressive promotional programs. The Company expects, by increasing opportunistic purchases of close-out merchandise and special buy merchandise, it will be able to improve its initial margins, which the Company expects will offset this higher markdown rate.

SELLING, GENERAL AND ADMINISTRATIVE
Selling, general and administrative expenses as a percentage of sales were 20.4% or $39.7 million in fiscal 2002, 21.7% or $42.2 million in fiscal 2001 and 22.6% or $43.4 million in fiscal 2000. The steady decrease in selling, general and administrative expenses as a percentage of sales over the past three years is a result of a series of expense reduction actions undertaken since fiscal 1999 that are still ongoing. Through continued improvements in store labor and other such related costs, the Company anticipated that these expenses will continue to show favorable decreases over the prior years.

IMPAIRMENT OF ASSETS
The Company accounts for long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of." The Company reviews its long-lived assets for events or changes in circumstances that indicate the carrying amount of the assets may not be recoverable. The Company assesses the recoverability of the assets by determining whether the carrying value of such assets over the remaining lives can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on projected discounted future cash flows using a discount rate reflecting the Company's average cost of funds. No such impairment charge was recorded in fiscal 2002.

In fiscal 2001, the Company recorded an impairment charge of $837,000 related to stores whose expected cash flows from operations are not expected to exceed their net book value prior to the expiration of their expected lease term. In fiscal 2000, the Company recorded an impairment charge of $611,000 for the write-down of fixed assets, included as part of the $15.2 million non-recurring charge recorded in the fourth quarter of fiscal 2000. See "Restructuring – Fiscal 2000" below. These charges are reflected in "Provision for impairment of assets, store closings and severance" on the Consolidated Statements of Operations for fiscal 2001 and 2000.

RESTRUCTURING-Fiscal 2000

During the fourth quarter of fiscal 2000, the Company recorded a pre-tax charge of $15.2 million, or $0.59 per share after tax, related to inventory markdowns, the abandonment of the Company's Boston Traders® and related trademarks, severance, and the closure of the Company's five Buffalo Jeans® Factory stores and its five remaining Designs stores. Of the $15.2 million charge, $7.8 million relating to inventory markdowns was reflected in gross margin in fiscal 2000. This pre-tax charge of $15.2 million included cash costs of approximately $3.6 million related to lease terminations and corporate and store severance, and approximately $11.6 million of non-cash costs related to inventory markdowns and the impairment of trademarks and store assets. There was no remaining reserve balance related to this $15.2 million charge at February 2, 2002.

As a result of the above charges recorded, the Company recorded a net operating loss for fiscal 2000. Because of an additional year of net operating losses, the Company recorded a write-down of tax assets of $6.0 million or $0.37 per share after tax attributable to the potential that certain deferred federal and state tax assets may not be realizable.

After the recording of these restructuring charges, all assets related to businesses other than the remaining Levi's®/Dockers® Outlet stores had been written off leaving only the operations and related assets of its retail outlet and factory stores which sell exclusively product made by or for Levi Strauss & Co.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for fiscal 2002 was $5.4 million as compared with $5.4 million in fiscal 2001 and $6.5 million in fiscal 2000. The reduced depreciation related to the aging of the Company's older stores is offset by increased depreciation of its new and remodeled stores. "See Liquidity and Capital Resources - Capital Expenditures."

INTEREST EXPENSE, NET

Net interest expense for fiscal 2002 was $1.9 million compared to $1.8 million in fiscal 2001 and $1.2 million in fiscal 2000. This increase is primarily a result of higher average borrowing levels offset partially by reduced interest rates under the Company's credit facility as compared to the prior year. Similarly, the increase in interest expense in fiscal 2001 as compared with fiscal 2000 was due to higher average borrowings and increased interest rates. See "Liquidity and Capital Resources."

INCOME TAX PROVISION/(BENEFIT)

The income tax provision for fiscal 2002 includes a special, non-cash charge of $8.0 million attributable to an increase in the valuation allowance for the Company's deferred tax assets, related to the potential that certain federal and state tax assets may not be realized. The provision for fiscal 2000 also included a $6.0 million charge against the Company's realizability of certain tax assets.

Realization of the Company's deferred tax assets, which relate principally to federal net operating loss carryforwards which expire from 2017 through 2022, is dependent on generating sufficient taxable income in the following first three years of the carryforward period. Accordingly, the valuation allowance at February 2, 2002 is primarily attributable to the potential that certain deferred federal and state tax assets will not be realizable within this period. Although realization is not assured, management believes it is more likely than not that the balance of the deferred tax assets in excess of the valuation allowance will be realized. In reaching this determination, management considered the Company's historical performance, noting that the losses in fiscal 1998, 1999 and 2000 which generated the net operating loss carryforwards described above were principally the result of charges incurred to exit unprofitable businesses and that the Company's core business of selling Levi Strauss & Co. branded apparel in outlet stores has been consistently profitable. However, considering the general economic weakness and reduced profit margin experienced in fiscal 2002, management increased the valuation allowance further in fiscal 2002. Assuming improved operating results from its core Levi's®/Dockers® Outlet business, management believes that the balance of deferred tax assets in excess of the valuation allowance may be utilized in the next three years. Although not considered in assessing the realization of the Company's deferred tax assets, management expects that the Company's expansion strategy of opening and operating other branded stores for other brand manufacturers will generate income in the coming years which could result in the realization of deferred tax assets currently reserved for. In the event the Company's performance of its Levi's®/Dockers® store improves, and/or its expansion into operating branded retail stores for other brand manufacturers improves the Company's overall profitability, the Company's valuation allowance for its deferred tax assets may be reduced. Conversely, the amount of the valuation allowance deemed necessary

could be increased in the near term if projections of future taxable income during the carryforward period are reduced or if actual results are less than projections.

As of February 2, 2002, the Company has net operating loss carryforwards of $33,622,000 for federal income tax purposes and $49,745,000 for state income tax purposes, which are available to offset future taxable income through fiscal year 2022. Additionally, the Company has alternative minimum tax credit carryforwards of $1,166,000, which are available to reduce further income taxes over an indefinite period.

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

In the third quarter of fiscal 2002, the Company and the IRS reached a final settlement on the audit of the Company's federal income tax returns for fiscal years 1992 through 1996. In accordance with this settlement, the Company paid to the IRS a total of $1.5 million, which included interest. The settlement of $1.5 million had no material impact on the Company's results of operations for fiscal 2002 due to adequate provisions previously established by the Company.

NET INCOME (LOSS)

The Company reported pre-tax income of $0.2 million for fiscal 2002 as compared to pre-tax income of $5.5 million in fiscal 2001 and a pre-tax loss of $10.3 million in fiscal 2000. After a non-cash charge of $8.0 million against the Company's deferred tax assets, the Company reported a net loss of $(7.9) million or $(0.54) per diluted share in fiscal 2002 compared with net income of $3.2 million or $0.20 per diluted share for fiscal 2001 and a net loss of $(12.5) million or $(0.78) per diluted share for fiscal 2000. Fiscal 2000 included non-recurring restructuring charges of $15.2 million, of which $6.0 million related to the write-down of certain tax assets. See "Restructuring – Fiscal 2000" for further discussion.

SEASONALITY

	FISCAL 2002		FISCAL 2001		FISCAL 2000	
			(SALES DOLLARS IN THOUSANDS)			
First quarter	$ 39,395	20.2%	$ 39,379	20.2%	$ 39,835	20.7%
Second quarter	47,698	24.5%	45,693	23.5%	42,907	22.3%
Third quarter	54,301	27.8%	56,587	29.1%	56,703	29.5%
Fourth quarter	53,725	27.5%	52,871	27.2%	52,747	27.5%
	$ 195,119	100.0%	$ 194,530	100.0%	$ 192,192	100.0%

A comparison of sales in each quarter of the past three fiscal years is presented above. The amounts shown are not necessarily indicative of actual trends, since such amounts also reflect the addition of new stores and the remodeling and closing of others during these periods. Historically, the Company has experienced seasonal fluctuations in revenues and income, exclusive of non-recurring charges, with increases occurring during the Company's third and fourth quarters as a result of "Fall" and "Holiday" seasons. A comparison of quarterly sales, gross profit, net income (loss) per share for the past two fiscal years is presented in Note K of Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs are for operating expenses, including cash outlays associated with inventory purchases and capital expenditures for new and remodeled stores. The Company expects that cash flow from operations, short-term revolving borrowings and trade credit will enable it to finance its current working capital, remodeling and expansion requirements.

The following table sets forth financial data regarding the Company's liquidity position at the end of the past three fiscal years:

	FISCAL YEARS		
	2002	2001	2000
		(DOLLARS IN THOUSANDS)	
Cash provided by (used for) operations	$ 563	$ 6,299	$ (1,227)
Working capital	13,277	16,306	19,624
Current ratio	1.3:1	1.4:1	1.5:1

The Company has financed its working capital requirements, store remodel and expansion program, stock repurchase programs and acquisitions with cash flow from operations, borrowings under the Company's credit facility, and proceeds from common stock offerings. Cash provided by (used for) operating activities was $0.6 million, $6.3 million and $(1.2) million in fiscal 2002, 2001 and 2000, respectively. The decrease in cash flow in fiscal 2002 was primarily the result of lower earnings as compared to fiscal 2001. The Company used the cash proceeds from operations of $0.6 million and borrowings under its credit facility to finance its store openings and remodeling program and other capital requirements of approximately $4.0 million, net of landlord allowances received. Correspondingly, the Company's net borrowing position increased by approximately $3.4 million to $27.8 million at February 2, 2002 as compared to the prior year.

In addition to cash flow from operations, the Company's other primary source of working capital is its Credit Agreement with Fleet Retail Finance, Inc. This agreement, which was amended on December 7, 2000, provides a revolving line of credit of up to $45 million and the ability to issue documentary and standby letters of credit up to $10 million. The Credit Agreement, which expires on November 30, 2003, was amended to reduce the borrowing costs and tie future interest costs to excess borrowing availability, eliminate all existing financial performance covenants and adopt a minimum availability covenant, increase the amount that can potentially be borrowed by increasing the advance rate formula to 68% of the Company's eligible inventory, provide the Company the ability to enter into stock buyback programs and reduce the total commitment from $50 million to $45 million. The Company's obligation under the Credit Agreement continues to be secured by a lien on all of its assets. The Company is subject to a prepayment penalty through December 7, 2002.

At February 2, 2002, the Company had borrowings of approximately $27.8 million outstanding under this credit facility and had two outstanding standby letters of credit totaling approximately $2.3 million. Average borrowings outstanding under this credit facility for fiscal 2002 were approximately $29.4 million. In fiscal 2002, the average unused availability under this credit facility was approximately $8.0 million.

Inventory

At February 2, 2002, total inventories of $57.7 million were unchanged when compared to the prior year total inventories of $57.7 million at February 3, 2001. On a per square foot basis, inventory levels decreased 6% in fiscal 2002 to $57.99 per square foot from $61.94 per square foot in fiscal 2001. The Company's increased promotional activities in fiscal 2002 and the Company's continued efforts to control inventory levels were the primary reasons for the decrease on a per square foot basis.

In the first quarter of fiscal 2002, the Company changed its method of determining the cost of inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. Management believes that the FIFO method better measures the current value of such inventories and provides a more appropriate matching of revenues and expenses. In the current low-inflationary environment, management believes that the use of the FIFO method more accurately reflects the Company's financial position. The effect of this change was immaterial to the financial results of the prior reporting periods of the Company and therefore did not require retroactive restatement of results for those prior periods.

The Company continues to evaluate and, within the discretion of management, act upon opportunities to purchase substantial quantities of Levi’s® and Dockers® brand products for its Levi’s® Outlet and Dockers® Outlet stores.

Stock Repurchase Programs

During the second and third quarters of fiscal 2001, the Company repurchased 863,000 shares of its Common Stock at an aggregate cost of $1,861,000 under a Stock Repurchase Program that was approved by the Company's Board of Directors in June 2000. In December 2000, the Company repurchased 1.8 million shares at $2.50 per share through a "Dutch Auction" tender offer. Under the terms of the offer, the Company invited its stockholders to tender their shares to the Company at prices specified by the tendering stockholders not in excess of $3.00 nor less than $2.20 per share, in ten-cent ($0.10) increments. The Company selected the lowest single per-share purchase price that would allow it to buy 1.5 million shares, or up to an additional 1.0 million shares at the Company's option.

At February 2, 2002, the Company has a total of 3,040,000 shares of repurchased Common Stock at an aggregate cost of $8.5 million which is reported by the Company as treasury stock and is reflected as a reduction in stockholders' equity.

Litigation

In fiscal 2001, the Company had a $1 million promissory note which was payable to Atlantic Harbor, Inc. in conjunction with the Company’s acquisition of certain assets from Boston Trading Ltd., Inc. (“Boston Trading”) in May 1995. In the first quarter of fiscal 1997, the Company had asserted certain indemnification rights and accordingly did not pay any principal payments on the note. In January 1998, Atlantic Harbor, Inc. filed a lawsuit against the Company for failing to pay the outstanding principal amount of the promissory note, and in March 1998, the Company filed a counterclaim against Atlantic Harbor, Inc. alleging that the Company suffered damaged in excess of $1 million because of the breach of certain representations and warranties made by Atlantic Harbor, Inc. and its stockholders concerning the existence and condition of certain foreign trademark registrations and license agreements.

In the first quarter of fiscal 2002, the Company entered into a settlement agreement with Atlantic Harbor, Inc. whereby the Company agreed to pay $450,000 to Atlantic Harbor, Inc. as settlement for all obligations under the outstanding promissory note. In exchange, the Company agreed to transfer and assign all trademarks and license agreements acquired as part of the original purchase agreement to a new entity in which the Company would have a 15% equity interest, with Atlantic Harbor, Inc and its affiliates retaining the remaining interest. In addition, the Company would also be entitled to receive up to an additional $150,000 from existing license royalties over the next four years. The Company recorded a gain on the settlement of this matter in the amount of $550,000 in the fourth quarter of fiscal 2001, which was included in “Provision for impairment of assets, store closing and severance” on the Consolidated Statements of Operations. See “Item 3. Legal Proceedings” for more discussion.

CAPITAL EXPENDITURES
The following table sets forth the stores opened, remodeled and closed and the capital expenditures incurred for the fiscal years presented:

	2002	2001	2000
New Stores:			
Levi's®/Dockers® Outlets	5	6	10
Dockers® Outlets	1	-	2
Candie's® Outlet	1	-	
Remodeled Stores:			
Remodeled Levi's® Outlets By Designs	6	9	6
Total new and remodeled	13	15	18
Total closed stores	4	4	23
Capital expenditures (000's)	$ 4,666	$ 5,823	$ 6,006

During fiscal 2002, the Company received approximately $3.7 million in landlord allowances against the total new and remodeled store capital expenditures of $4.7 million. The Company incurred capital expenditures of $3.0 million in fiscal 2002 related to miscellaneous leasehold improvements at the Company's corporate headquarters, technology expenditures and other store capital.

The Company's plan for fiscal 2003 is to open a total of 15 to 20 new outlet stores, 16 of which are scheduled to open in time for the important back-to-school selling season. The Company expects to open eleven new Candie's® junior footwear and apparel outlet stores by mid-year. Four of these stores will be built utilizing space from the Company's existing Levi's®/Dockers® stores which are located in outlet centers in New York, New England and Puerto Rico. Several of the Company's existing higher volume Levi's®/Dockers® outlet stores currently average 13,000 to 15,000 square feet which is more than the Company's ideal prototype store size of 9,000 square feet. By utilizing this excess space for the new Candie's® outlet stores, the Company can leverage expenses while increasing profitability. The remaining seven Candie's® outlet stores to be open will include five in California, one in Las Vegas, Nevada and one in Miami, Florida.

The Company plans to open its first EcKo® outlet stores by the back-to-school season. As the Company continues to discuss its growth strategy with other manufacturers, new store locations may be added to the Company's current expansion plans.

Capital expenditures for fiscal 2003 are expected to be approximately $4.0 million, of which $2.5 million relates to the expansion plan discussed above. This amount is net of committed landlord allowances of approximately $910,000 that the Company will receive. The expected cost to build a Candie's® Outlet store is approximately $25-30 square foot, net of tenant allowances. These store locations, which will average approximately 2,800 square feet, will require limited initial cash requirements which is why the Company will be able to fund the above expansion plan through the use of its cash from operations and its existing credit facility.

CRITICAL ACCOUNTING POLICIES
The Company's financial statements are based on the application of significant accounting policies, many of which require management to make significant estimates and assumptions (see Note A to the consolidated financial statements). The Company believes that the following are some of the more critical judgment areas in the application of its accounting policies that currently affect our financial condition and results of operations.

Inventory. The Company records inventory at the lower of cost or market on a first-in first-out basis ("FIFO"). The Company reserves for obsolescence based on the difference between the weighted average cost of the inventory and the estimated market value based on assumptions of future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional reserves may be required.

Impairment of Long-Lived Assets. The Company reviews its long-lived assets for impairment when indicators of impairment are present and the undiscounted cash flow estimated to be generated by those assets are less than the assets' carrying amount. The Company evaluates its long-lived assets for impairment at a store level for all its retail locations. If actual market conditions are less favorable than management's projections, future write-offs may be necessary.

Deferred Taxes. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company has considered estimated future taxable income and ongoing tax planning strategies in assessing the amount needed for the valuation allowance. If actual results differ unfavorably from those estimates used, the Company may not be able to realize all or part of its net deferred tax assets and additional valuation allowances may be required.

RECENT ACCOUNTING PRONOUNCEMENTS
In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets" (the "Statements"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. The Company will apply the new accounting rules under the Statements beginning in the first quarter of fiscal 2003. Management does not believe that the adoption of the impairment provisions of the Statements will have a material impact on the Company's overall financial position or results of operations.

In July 2001, the FASB also issued Statement No. 143 "Accounting for Asset Retirement Obligations". This Statement requires recording the fair value of a liability for an asset retirement obligation in the period in which it is incurred and capitalizing the associated asset retirement costs as part of the carrying amount of the long-lived asset. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. Management does not believe that the adoption of this Statement will have a material impact on the Company's overall financial position or results of operations.

In October 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement supercedes Statement No. 121. Although this Statement retains many of the fundamental provisions of Statement No. 121, it expands the scope of discontinued operations to include more disposal transactions and significantly changes the criteria for classifying an asset as held-for-sale. The provisions of this Statement are effective for fiscal years beginning after December 15, 2001. Management does not believe that the adoption of this Statement will have a material impact on the Company's overall financial position or results of operations.

EFFECTS OF INFLATION
Although the Company's operations are influenced by general economic trends, the Company does not believe that inflation has had a material effect on the results of its operations in the last three fiscal years.

RISKS AND UNCERTAINTIES

This Annual Report on Form 10-K, including the foregoing discussion of results of operations, liquidity, capital resources and capital expenditures, contains certain forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are statements other than historical information or statements of current conditions. Some forward-looking statements may be identified by use of terms such as "believe," "anticipate," "intends," or "expects." These forward-looking statements in this Annual Report on Form 10-K should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved. Numerous factors could cause the Company's actual results to differ materially from such forward-looking statements. The Company encourages readers to refer to the Company's Current Report on Form 8-K, previously filed with the Securities and Exchange Commission on April 28, 2000, which identifies certain risks and uncertainties that may have an impact on future earnings and the direction of the Company. The Company undertakes no obligation to release publicly the results of any future revisions it may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

In the normal course of business, the financial position and results of operations of the Company are routinely subject to a variety of risks, including market risk associated with interest rate movements on borrowings. The Company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. The Company utilizes cash from operations and a revolving credit facility to fund its working capital needs. The Company's revolving credit facility is not used for trading or speculative purposes. In addition, the Company has available letters of credit as sources of financing for its working capital requirements. Borrowings under this credit agreement, which expires in November 2003, bear interest at variable rates based on FleetBoston, N.A.'s prime rate or the London Interbank Offering Rate ("LIBOR"). These interest rates at February 2, 2002 were 4.75% for prime based borrowings and included various LIBOR contracts with interest rates ranging from 4.016% to 4.374%. Based upon sensitivity analysis as of February 2, 2002, a 10% increase in interest rates would result in a potential increase in interest expense of approximately $140,000.

Item 8. *Financial Statements and Supplementary Data*

DESIGNS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

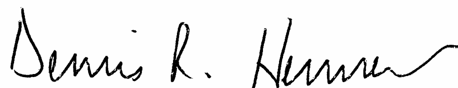
The integrity and objectivity of the financial statements and the related financial information in this report are the responsibility of the management of the Company. The financial statements have been prepared in conformity with generally accepted accounting principles and include, where necessary, the best estimates and judgments of management.

The Company maintains a system of internal accounting control designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded, transactions are executed in accordance with management's authorization and the accounting records provide a reliable basis for the preparation of the financial statements. The system of internal accounting control is regularly reviewed by management and improved and modified as necessary in response to changing business conditions.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management and the Company's independent auditors to review matters relating to the Company's financial reporting, the adequacy of internal accounting control and the scope and results of audit work. The independent auditors have free access to the Audit Committee.

Ernst & Young LLP, independent auditors, have been engaged to examine the financial statements of the Company for the fiscal year ended February 2, 2002. The Report of Ernst & Young, Independent Auditors expresses an opinion as to the fair presentation of the financial statements in accordance with generally accepted accounting principles and is based on an audit conducted in accordance with auditing standards generally accepted in the United States.

David A. Levin
President and Chief Executive Officer



Dennis R. Hernreich
Senior Vice President, Chief Financial Officer &
Treasurer

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

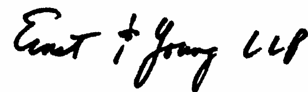
To the Board of Directors and Stockholders of Designs, Inc:

We have audited the accompanying consolidated balance sheets of Designs, Inc. as of February 2, 2002 and February 3, 2001 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years in the period ended February 2, 2002. Our audits also included the financial statement schedule for the years ended February 2, 2002 and February 3, 2001 listed in the Index as Item 14 (a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Designs, Inc. at February 2, 2002 and February 3, 2001, and the consolidated results of its operations and its cash flows for each of the two years in the period ended February 2, 2002 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Boston, Massachusetts
March 11, 2002



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Designs, Inc:

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Designs, Inc. (the "Company") for the year ended January 29, 2000. Our audit also included the financial statement schedule listed in the Index at Item 14 (a) (2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the results of the Company's operations and cash flows for the year ended January 29, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Boston, Massachusetts
April 11, 2000

Deloitte & Touche LLP

DESIGNS, INC.
CONSOLIDATED BALANCE SHEETS
February 2, 2002 and February 3, 2001

	February 2, 2002 (Fiscal 2002)	February 3, 2001 (Fiscal 2001)
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ -**	$ -
Accounts receivable	**491**	18
Inventories	**57,734**	57,675
Deferred income taxes	**652**	765
Prepaid expenses	**2,887**	3,093
Total current assets	**61,764**	61,551
Property and equipment, net of accumulated depreciation and amortization	**20,912**	18,577
Other assets:		
Deferred income taxes	**7,326**	14,347
Other assets	**899**	595
Total assets	**$ 90,901**	$ 95,070
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 7,074**	$ 6,280
Accrued expenses and other current liabilities	**10,538**	10,809
Accrued rent	**2,541**	2,376
Reserve for severance and store closings	**-**	852
Payable to affiliate	**582**	583
Notes payable	**27,752**	24,345
Total current liabilities	**48,487**	45,245
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, none issued	**-**	-
Common stock, $0.01 par value, 50,000,000 shares authorized, 17,608,000 and 17,488,000 shares issued at February 2, 2002 and February 3, 2001, respectively	**176**	175
Additional paid-in capital	**56,189**	55,697
(Accumulated deficit) retained earnings	**(5,304)**	2,577
Treasury stock at cost, 3,040,000 and 3,035,000 shares at February 2, 2002 and February 3, 2001, respectively	**(8,450)**	(8,427)
Note receivable from officer	**(197)**	(197)
Total stockholders' equity	**42,414**	49,825
Total liabilities and stockholders' equity	**$ 90,901**	$ 95,070

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

DESIGNS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

For the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000

	Fiscal 2002 (52 weeks)	Fiscal 2001 (53 weeks)	Fiscal 2000 (52 weeks)
		(In thousands, except share data)	
Sales	**$ 195,119**	$ 194,530	$ 192,192
Cost of goods sold including occupancy	**147,898**	139,545	144,752
Gross profit	**47,221**	54,985	47,440
Expenses:			
Selling, general and administrative	**39,743**	42,207	43,401
Provision for impairment of assets, store closings and severance	**-**	107	6,608
Depreciation and amortization	**5,398**	5,373	6,502
Total expenses	**45,141**	47,687	56,511
Operating income (loss)	**2,080**	7,298	(9,071)
Interest expense, net	**1,905**	1,810	1,207
Income (loss) before income taxes	**175**	5,488	(10,278)
Provision for income taxes	**8,056**	2,272	2,215
Net (loss) income	**$ (7,881)**	$ 3,216	$ (12,493)
Net (loss) income per share - basic	**($0.54)**	$0.20	($0.78)
Net (loss) income per share - diluted	**($0.54)**	$0.20	($0.78)
Weighted-average number of common shares outstanding:			
Basic	**14,486**	16,015	16,088
Diluted	**14,486**	16,292	16,088

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

DESIGNS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000

(IN THOUSANDS)

	Common Stock		Treasury Stock		Additional Paid-in	Deferred	Note Receivable	(Accumulated Deficit) Retained	
	Shares	Amounts	Shares	Amounts	Capital	Compensation	from Officer	Earnings	Total
Balance at January 30, 1999	16,178	$ 162	(286)	$ (1,830)	$ 53,908	$ (138)	$ -	$ 11,854	$ 63,956
Issuance of Common Stock:									
Board of Directors compensation	157	2			256				258
Vesting of restricted stock award						138			138
Issuance of shares to related party for professional services	355	3			407				410
Net loss								(12,493)	(12,493)
Balance at January 29, 2000	16,690	$ 167	(286)	$ (1,830)	$ 54,571	$ -	$ -	$ (639)	$ 52,269
Issuance of Common Stock:									
Exercises under option program	38	-			82				82
Board of Directors compensation	119	1			186				187
Issuance of shares to related party for professional services	386	4			520				524
Repurchase of common stock			(2,621)	(6,314)	-				(6,314)
Restricted stock cancelled			(23)	(53)	1				(52)
Exercise of options and repurchase of shares from director	105	1	(105)	(230)	132				(97)
Sale of stock to officer	150	2			195		(197)		-
Income tax benefit from stock option exercised					10				10
Net income								3,216	3,216
Balance at February 3, 2001	17,488	$ 175	(3,035)	$ (8,427)	$ 55,697	$ -	$ (197)	$ 2,577	$ 49,825
Issuance of Common Stock:									
Exercises under option program	19				28				28
Board of Directors compensation	35				99				99
Issuance of shares to related party for professional services	66	1			316				317
Issuance of options for professional services rendered					33				33
Repurchase of common stock			(5)	(23)					(23)
Income tax benefit from stock option exercised					16				16
Net loss								(7,881)	(7,881)
Balance at February 2, 2002	17,608	$ 176	(3,040)	$ (8,450)	$ 56,189	$ -	$ (197)	$ (5,304)	$ 42,414

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

DESIGNS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the fiscal years ended February 2, 2002, February 3, 2001and January 29, 2000

	Fiscal 2002	Fiscal 2001	Fiscal 2000
		(In thousands)	
Cash flows from operating activities:			
Net (loss) income	**$ (7,881)**	$ 3,216	$ (12,493)
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:			
Depreciation and amortization	**5,398**	5,373	6,503
Deferred income taxes	**7,134**	2,023	(4,323)
Loss (gain) from disposal of property and equipment	**42**	145	(75)
Vesting of restricted stock, net of cancellations	**-**	-	138
Issuances of common stock to Board of Directors	**99**	187	258
Issuance of common stock to related party	**317**	524	410
Issuance of common stock for professional services	**33**	-	-
Changes in operating assets and liabilities:			
Accounts receivable	**(473)**	65	95
Inventories	**(59)**	(653)	(6,944)
Prepaid expenses	**206**	(2,051)	(131)
(Increase) reduction in other assets	**(399)**	(98)	2,368
Payment to Internal Revenue Service on settlement of audit	**(1,500)**	-	-
Accounts payable	**794**	(521)	(1,915)
Reserve for severance, store closings and impairment charges	**(852)**	(2,376)	14,844
Accrued expenses, other current liabilities and payable to affiliate	**(2,461)**	342	(200)
Accrued rent	**165**	123	238
Net cash provided by (used for) operating activities	**563**	6,299	(1,227)
Cash flows from investing activities:			
Additions to property and equipment, net	**(4,012)**	(4,493)	(5,046)
Proceeds from disposal of property and equipment	**21**	57	108
Termination (establishment) of investment trust	**-**	2,365	(2,365)
Net cash used for investing activities	**(3,991)**	(2,071)	(7,303)
Cash flows from financing activities:			
Net borrowings under credit facility	**3,407**	2,143	8,377
Repurchase of common stock	**(23)**	(6,597)	-
Issuances of common stock under option program (1)	**44**	226	-
Net cash provided by (used for) financing activities	**3,428**	(4,228)	8,377
Net decrease in cash and cash equivalents	**-**	-	(153)
Cash and cash equivalents:			
Beginning of the year	**-**	-	153
End of the year	**$ -**	$ -	$ -

(1) Includes related tax benefit.

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

DESIGNS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FEBRUARY 2, 2002

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Line of Business
Designs, Inc. (the "Company") is engaged in the retail sales of branded apparel and accessories primarily in the outlet channel of distribution. The Company operates a chain of outlet stores located in the eastern part of the United States and Puerto Rico. Levi Strauss & Co. is currently the most significant vendor of the Company, representing substantially all of the Company's merchandise purchases. The Company also purchases merchandise, primarily accessories, from licensees of Levi Strauss & Co. brand products. During the fourth quarter of fiscal 2002, the Company started to expand its business by entering into agreements with other branded manufacturers to operate outlet stores for these brands.

Basis of Presentation
The consolidated financial statements include the accounts of the Company and its subsidiaries and affiliates. All significant intercompany accounts, transactions and profits are eliminated.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from estimates.

Certain amounts from prior years have been reclassified to conform to the current year presentation.

Fiscal Year
The Company's fiscal year is a 52- or 53-week period ending on the Saturday closest to January 31. Fiscal years 2002, 2001 and 2000 ended on February 2, 2002, February 3, 2001 and January 29, 2000, respectively. Fiscal years 2002 and 2000 were 52-week periods and fiscal year 2001 was a 53-week period.

Revenue Recognition
Revenue is recorded upon purchase of merchandise by customers. In connection with gift certificates, a deferred revenue amount is established upon purchase of the certificate by the customer and revenue is recognized upon redemption and purchase of merchandise.

Cash and Cash Equivalents
Short-term investments, which have a maturity of ninety days or less when acquired, are considered cash equivalents. The carrying value approximates fair value.

Restricted Investment
In fiscal 2000, the Company had a $2.3 million restricted investment which represented a trust established for the purpose of securing pre-existing obligations of the Company to certain executives under their respective employment agreements. These funds were being held in a trust to pay the amounts that might become due under their employment agreements and also to pay any amounts that might become due to them pursuant to their indemnification agreements and the Company's by-laws. In fiscal 2001 the trust was terminated, and accordingly, the funds were no longer restricted.

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

The effect of this change was immaterial to the financial results of the prior reporting periods of the Company and therefore did not require retroactive restatement of results for those prior periods. The benefit for LIFO was $350,000 and $558,000 in fiscal 2001 and 2000, respectively. The benefit in fiscal 2001 was offset by a provision for a lower of cost or market adjustment to merchandise inventories of $350,000. If inventory had been valued on the FIFO basis at February 3, 2001 inventory would have been approximately $57,675,000.

Property and Equipment

Property and equipment are stated at cost. Major additions and improvements are capitalized while repairs and maintenance are charged to expense as incurred. Upon retirement or other disposition, the cost and related depreciation of the assets are removed from the accounts and the resulting gain or loss is reflected in income. Depreciation is computed on the straight-line method over the assets' estimated useful lives as follows:

Motor vehicles	Five years
Store furnishings	Five to ten years
Equipment	Five to eight years
Leasehold improvements	Lesser of useful lives or related lease life
Software	Three to five years

Pre-opening Costs

In accordance with Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities," the Company expenses all pre-opening costs for its stores as incurred.

Advertising Costs

Advertising costs, which are included in selling, general and administrative expenses, are expensed when incurred. Advertising expense was $1,004,000, $931,000 and $1,034,000 for fiscal 2002, 2001 and 2000, respectively.

Net Income (Loss) Per Share

Statement of Financial Accounting Standards No. 128, "Earnings per Share", requires the computation of basic and diluted earnings per share. Basic earnings per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share is determined by giving effect to the exercise of stock options using the treasury stock method.

	Fiscal Years Ended		
	February 2, 2002	February 3, 2001	January 29, 2000
		(in thousands)	
Basic weighted-average common shares outstanding	14,486	16,015	16,088
Stock options, excluding anti-dilutive options of 578 and 114 shares for February 2, 2002 and January 29, 2000, respectively	----	277	----
Diluted weighted-average shares outstanding	14,486	16,292	16,088

Options to purchase shares of the Company's Common Stock, par value $0.01 per share (the "Common Stock"), of 933,900, 283,350 and 320,700 for fiscal 2002, 2001 and 2000, respectively, were outstanding during the respective periods but were not included in the computation of diluted EPS because the exercise price of the options was greater than the average market price of the Common Stock for the period reported. These options, which expire between June 9, 2002 and July 31, 2011, have exercise prices ranging from $3.48 to $17.75 in fiscal 2002 and $2.00 to $17.75 in fiscal years 2001 and 2000.

Impairment of Long-Lived Assets
The Company accounts for long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The Company reviews its long-lived assets for events or changes in circumstances that might indicate the carrying amount of the assets may not be recoverable. The Company assesses the recoverability of the assets by determining whether the carrying value of such assets over the remaining lives can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on projected discounted future cash flows using a discount rate reflecting the Company's average cost of funds. No such charge was necessary for the fiscal year ended February 2, 2002. In fiscal 2001, the Company recorded an impairment charge of $837,000 for the write-down of fixed assets. The impairment charge related to stores whose expected cash flows from operations are not expected to exceed their net book value prior to the expiration of their expected lease term. In fiscal 2000, the Company recorded an impairment charge of $611,000 for the write-down of fixed assets which was included as part of the $15.2 million non-recurring charge recorded in the fourth quarter of fiscal 2000. For further discussion, see Note I. The impairment charge of $611,000 was related to eight stores which the Company acquired in October 1998 from Levi's Only Stores ("LOS"), a wholly owned subsidiary of Levi Strauss & Co. It was not until the end of fiscal 2000 that the Company had a full year of operating results for these stores on which to make an assessment regarding their future profitability and the realizability of their assets.

B. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at the dates indicated:

	February 2, 2002	February 3, 2001
(in thousands)		
Motor vehicles	$ -	$ 46
Store furnishings	20,142	17,869
Equipment	7,249	6,429
Leasehold improvements	20,875	19,323
Purchased software	6,669	5,931
Reserve on impaired assets	(216)	(875)
Construction in progress	529	528
	55,248	49,251
Less accumulated depreciation	34,336	30,674
Total property and equipment	$ 20,912	$ 18,577

Depreciation expense for fiscal 2002, 2001 and 2000 was $5,303,000, $5,177,000 and $5,949,000, respectively.

C. DEBT OBLIGATIONS

Credit Agreement with Fleet Retail Finance, Inc.

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

At February 2, 2002, the Company had borrowings of approximately $27.8 million outstanding under this credit facility and had two outstanding standby letters of credit totaling approximately $2.3 million. The fair value of amounts outstanding under this credit facility approximate the carrying value at February 2, 2002 and February 3, 2001. The interest rates on these borrowings at February 2, 2002 were 4.75% for prime based borrowings with varying rates on LIBOR contracts of 4.02% to 4.37%. Average borrowings outstanding under this facility during fiscal 2002 were approximately $29.4 million. The Company had average unused excess availability under this facility of approximately $8.0 million during fiscal 2002, and unused excess availability of $4.3 million at February 2, 2002. The Company was in compliance with all debt covenants under the Amended Credit Agreement at February 2, 2002.

Promissory Note with Boston Trading, Ltd., Inc.
On May 2, 1995, the Company delivered a non-negotiable promissory note in the principal amount of $1,000,000 (the "Purchase Note") in connection with the acquisition of certain assets of Boston Trading Ltd., Inc. ("Boston Trading") in accordance with the terms of an Asset Purchase Agreement dated April 21, 1995 among Boston Trading, its stockholders, Designs Acquisition Corp., and the Company (the "Purchase Agreement"). The principal amount of the Purchase Note was stated to be payable in two equal annual installments through May 1997. The note bore interest at the published prime rate, payable semi-annually from the date of acquisition.

In the first quarter of fiscal 1997, the Company asserted certain indemnification rights under the Purchase Agreement. In accordance with the 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 under the Purchase Note. Accordingly, the Company did not make the two $500,000 payments of principal on the Purchase Note that were due on May 2, 1996 and May 2, 1997. The Company paid interest on the original principal amount of the Purchase Note through May 2, 1996 and continued to pay interest thereafter through January 31, 1998 on $500,000 of principal. In January 1998, Atlantic Harbor, Inc. filed a lawsuit against the Company for failing to pay the outstanding principal amount of the Purchase Note. In March 1998, the Company filed a counterclaim against Atlantic Harbor, Inc. alleging that the Company suffered damaged in excess of $1 million because of the breach of certain representations and warranties made by Atlantic Harbor, Inc. and its stockholders concerning the existence and condition of certain foreign trademark registrations and license agreements.

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

The Company paid interest and fees on all the above described debt obligations totaling $1,906,000, $2,112,000, and $1,558,000 for fiscal 2002, 2001 and 2000, respectively.

D. INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. SFAS 109 requires current recognition of net deferred tax assets to the extent that it is more likely than not that such net assets will be realized. To the extent that the Company believes that its net deferred tax assets will not be realized, a valuation allowance must be recorded against those assets.

As of February 2, 2002, the Company has net operating loss carryforwards of $33,622,000 for federal income tax purposes and $49,745,000 for state income tax purposes which are available to offset future taxable income through fiscal year 2022. Additionally, the Company has alternative minimum tax credit carryforwards of $1,166,000, which are available to further reduce income taxes over an indefinite period.

The components of the net deferred tax assets as of February 2, 2002 and February 3, 2001 are as follows:

	February 2, 2002	February 3, 2001
Deferred tax assets – current:		
Inventory reserves	$ 569	$ 765
Accrued expenses	83	-
Net deferred tax assets – current	$ 652	$ 765
Deferred tax assets – noncurrent:		
Excess of book over tax depreciation/amortization	$ 4,388	$ 3,275
Restructuring reserve	67	408
Net operating loss carryforward	14,565	15,760
Alternative minimum tax credit carryforward	1,166	1,138
Subtotal	20,186	20,581
Valuation allowance	(12,860)	(6,234)
Total deferred tax assets, net – noncurrent	$ 7,326	$ 14,347

In the fourth quarter of fiscal 2002, the Company recorded a charge of $8.0 million against its deferred tax assets, attributable to the potential that certain of these assets may not be realizable. The Company had previously recorded, in fiscal 2000, a valuation allowance of $6.2 million against its tax assets related to losses incurred as a result of restructuring and other non-recurring charges.

Realization of the Company's deferred tax assets, which relate principally to federal net operating loss carryforwards which expire from 2017 through 2022, is dependent on generating sufficient taxable income in the following first three years of the carryforward period. Accordingly, the valuation allowance at February 2, 2002 is primarily attributable to the potential that certain deferred federal and state tax assets will not be realizable within this period. Although realization is not assured, management believes it is more likely than not that the balance of the deferred tax assets in excess of the valuation allowance will be realized. In reaching this determination, management considered the Company's historical performance, noting that the losses in fiscal 1998, 1999 and 2000 which generated the net operating loss carryforwards described above were principally the result of charges incurred to exit unprofitable businesses and that the Company's core business of selling Levi Strauss & Co. branded apparel in outlet stores has been consistently profitable. However, considering the general economic weakness and reduced profit margin experienced in fiscal 2002, management increased the valuation allowance further in fiscal 2002. Assuming improved operating results from its core Levi's®/Dockers® Outlet business, management believes that the balance of deferred tax assets in excess of the valuation allowance may be utilized in the next three years. Although not considered in assessing the realization of the Company's deferred tax assets, management expects that the Company's expansion strategy of opening and operating other branded stores for other brand manufacturers will generate income in the coming years which could result in the realization of deferred tax assets currently reserved for. In the event the Company's performance of its Levi's®/Dockers® store improves, and/or its expansion into operating branded retail stores for other brand manufacturers improves the Company's overall profitability, the Company's valuation allowance for its deferred tax assets may be reduced. Conversely, the amount of the valuation allowance deemed necessary could be increased in the near term if projections of future taxable income during the carryforward period are reduced or if actual results are less than projections.

The provision for income taxes consists of the following:

	FISCAL YEARS ENDED		
	February 2, 2002	February 3, 2001	January 29, 2000
Current:		(in thousands)	
Federal	$ (627)	$ ---	$ ---
State	1,549	249	508
	922	249	508
Deferred:			
Federal	5,107	362	439
State	2,027	1,661	1,268
	7,134	2,023	1,707
Total provision	$ 8,056	$ 2,272	$ 2,215

The following is a reconciliation between the statutory and effective income tax rates in dollars:

	FISCAL YEARS ENDED		
	February 2, 2002	February 3, 2001	January 29, 2000
Federal income tax at the statutory rate	$ 60	$ 1,866	$(3,495)
State income and other taxes, net of federal tax benefit	5	357	(164)
Permanent items	38	49	21
Change in valuation allowance	8,000	--	5,694
Other, net	(47)	--	--
Expiration of capital loss carryforward	--	--	159
Provision for income tax	$ 8,056	$ 2,272	$ 2,215

The Company received income tax refunds of $75,000 for fiscal year 2000 and the Company paid income taxes of $184,000 for fiscal year 2001. In fiscal 2002, the Company paid income taxes, excluding its settlement with the Internal Revenue Service (“IRS”), of $231,000. These figures represent the net of payments and receipts.

During the first quarter of fiscal year 1999, the Internal Revenue Service ("IRS") completed an examination of the Company's federal income tax returns for fiscal years 1992 through 1996. Taxes on the adjustments proposed by the IRS, excluding interest, amounted to approximately $4.9 million. The IRS challenged the fiscal tax years in which various income and expense deductions were recognized, resulting in potential timing differences of previously paid federal income taxes. The Company appealed these proposed adjustments through the IRS appeals process and on August 25, 2001 reached a settlement on the audit. In accordance with the settlement, the Company paid to the IRS a total of $1.5 million in fiscal 2002 including interest. The settlement of $1.5 million had no material impact on the Company's results of operations in fiscal 2002 due to adequate provisions previously established by the Company.

E. COMMITMENTS AND CONTINGENCIES

At February 2, 2002, the Company was obligated under operating leases covering store and office space, automobiles and certain equipment for future minimum rentals as follows:

FISCAL	TOTAL (in thousands)
2003	$ 17,709
2004	17,054
2005	14,369
2006	9,974
2007	6,260
Thereafter	19,044
	$ 84,410

In addition to future minimum rental payments, many of the store leases include provisions for common area maintenance, mall charges, escalation clauses and additional rents based on a percentage of store sales above designated levels.

The Company signed a lease for its corporate headquarters in Needham, Massachusetts, during fiscal 1996. The term of the lease is for ten years ending in November 2005. The lease provides for the Company to pay all related costs associated with the land and headquarters building. Over the past four years, the Company has subleased a large portion of these corporate headquarters. At February 2, 2002, the Company had two subtenants. One of the subtenants has vacated the leased premises, of approximately 14,500 square feet, but is still paying the required rent through the end of their lease, which expires March 2003. The second tenant, whose lease expires in July 2003, leases approximately 15,300 square feet. In September 2000, the Company had entered into a third lease agreement with an additional subtenant for 9,500 square feet. That subtenant filed bankruptcy in fiscal 2001.

Under the lease for the corporate headquarters, a portion of the sublease income, net of the Company's rental cost and certain apportioned common area maintenance charges, is due back to the landlord when more than 30,000 square feet of the office space becomes subleased. At February 2, 2002, the Company sub-leased approximately 29,800 of the 80,000 square feet of its corporate offices. The Company's commitment under this lease is reduced by the expected future rental income to be received from the Company's two sublessees. The Company expects to receive approximately $0.7 million in fiscal 2003 and $0.2 million in fiscal 2004 in rental income under these sublease agreements.

In November, 2000, the Company entered into an option agreement with the landlord of its corporate headquarters. The agreement provided the landlord with the option, if exercised within 15 months from the date of the agreement, to terminate the Company's lease for its corporate headquarters, which expires January 31, 2006. If such option was exercised by the landlord, then the Company would have been entitled to receive $8.9 million provided that certain conditions in connection with vacating the leased property were met. This option, which was not exercised by the landlord, terminated on February 1, 2002.

The Company leases two warehouse facilities in Orlando, Florida, which it utilizes as its merchandise distribution centers. One lease, which is for approximately 60,000 square feet, is a five year lease which expires on August 14, 2005. At that time, the Company has the option to extend its lease for an additional five year term. In fiscal 2002, the Company entered into a lease agreement for an additional 16,000 square feet. The lease for this additional space expires March 31, 2005. Until September 2001, the Company had also utilized a 30,000 square foot third party distribution center in Mansfield, Massachusetts. With its distribution centers in Florida in full operation, the Company no longer required the services of a third party distributor.

Amounts charged to operations for all occupancy costs, automobile and leased equipment expense were $23,038,000, $22,250,000 and $22,571,000 in fiscal 2002, 2001 and 2000, respectively. Of these amounts charged to operations, $49,000, $75,000 and $23,000 represent payments based upon a percentage of adjusted gross sales as provided in the lease agreement for fiscal 2002, 2001 and 2000, respectively.

The Company is also subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the resolution of these matters will not have an adverse impact on the results of operations or the financial position of the Company.

F. STOCK OPTIONS

On April 3, 1992, the Board of Directors adopted the 1992 Stock Incentive Plan (the "1992 Plan"), which became effective on June 9, 1992 when it was approved by the stockholders of the Company. Under the original terms of the 1992 Plan, up to 1,850,000 shares of Common Stock could be issued pursuant to "incentive stock options" (as defined in Section 422 of the Internal Revenue Code of 1986, as amended), options which are not "incentive stock options," conditioned stock awards, unrestricted stock awards and performance share awards. The 1992 Plan is administered by the Compensation Committee, all of the members of which are non-employee directors. The Compensation Committee makes all determinations with respect to amounts and conditions covering awards under the 1992 Plan. No incentive stock options could be granted under the original terms of the 1992 Plan after April 2, 2002. Options have never been granted at a price less than fair value on the date of the grant. Options granted to employees, executives and directors typically vest over five, three and three years, respectively, with the exception of the premium priced options issued to the executives which vest over a five-year period. Options granted under the 1992 Plan expire ten years from the date of grant. The 1992 Plan terminates when all shares issuable thereunder have been issued.

By written consent dated as of April 28, 1997, the Board of Directors authorized an increase in the number of shares of Common Stock issuable under the 1992 Plan to 2,430,000 shares. In addition, the Board of Directors authorized an increase in the number of options to purchase shares of Common Stock that could be granted during any fiscal year to any individual participant from 75,000 to 270,000 shares, but only if all such stock options had a per share exercise price not less than 200% of fair market value of one share of Common Stock on the date of grant. Furthermore, they authorized the elimination of certain provisions of the 1992 Plan that were no longer required by Rule 16b-3 under the Securities Exchange Act of 1934, as amended. The stockholders approved this increase and the other amendments to the 1992 Plan at the Annual Meeting of Stockholders held on June 10, 1997.

On May 19, 2000, the Board of Directors approved an amendment to the 1992 Plan to increase the number of shares of Common Stock authorized for issuance from 2,430,000 shares to 4,430,000 shares and to extend the date of termination of the 1992 Plan from April 2, 2002 to April 2, 2007. This amendment was subsequently approved by the Company's stockholders at the Annual Meeting of Stockholders on June 26, 2000. At the Annual Meeting of Stockholders held on July 31, 2001, the shareholders approved an amendment to the 1992 Plan to allow the Company to grant options to purchase up to 270,000 shares of Common Stock to any individual participant during any fiscal year so long as the exercise price is not less than fair market value on the date of grant.

A summary of shares subject to the 1992 Plan:

	FISCAL YEAR		
	2002	2001	2000
Outstanding at beginning of year	851,850	501,075	2,103,225
Options granted	523,769	886,352	261,106
Options canceled	74,413	354,225	1,625,600
Options exercised	59,392	181,352	237,656
Outstanding at end of year	1,241,814	851,850	501,075
Options exercisable at end of year	470,551	246,105	396,075
Common shares reserved for future grants at end of year	2,628,033	3,077,389	1,624,266
Weighted-average exercise price per option:			
Outstanding at beginning of year	$ 2.87	$ 6.68	$ 10.94
Granted during the year	3.69	1.40	1.60
Canceled during the year	1.88	5.41	12.15
Exercised during the year	2.49	1.54	1.10
Outstanding at end of year	$ 3.31	$ 2.87	$ 6.68

The following table summarizes information about stock options outstanding under the 1992 Plan at February 2, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.81 to $2.15	608,414	8.0 years	$ 1.35	280,451	$ 1.36
2.16 to 4.30	378,300	9.3 years	3.63	5,000	2.38
4.31 to 6.45	126,750	8.5 years	4.37	56,750	4.38
6.46 to 8.60	49,750	2.3 years	7.81	49,750	7.81
8.61 to 10.75	25,000	1.5 years	9.00	25,000	9.00
10.76 to 12.90	30,600	0.2 years	11.17	30,600	11.17
12.91 to 17.74	----	---	---	----	----
17.75 to 17.75	23,000	0.8 years	17.75	23,000	17.75
$0.81 to $17.75	1,241,814		$ 3.31	470,551	$ 4.26

Agreements with Jewelcor Management, Inc. and Mr. Holtzman

On October 28, 1999, the Company entered into a consulting agreement with Jewelcor Management, Inc. ("JMI"), currently the beneficial holder of approximately 21% of the outstanding Common Stock, to assist in developing and implementing a strategic plan for the Company and other related consulting services as may be agreed upon between the Company and JMI. As compensation for these services, JMI was given the right to receive a non-qualified stock option exercisable for up to 400,000 shares of the Common Stock. These options, which were originally scheduled to expire on April 30, 2002 and extended to April 30, 2004, were granted as compensation for consulting services to be performed over the six-month term of the agreement, which commenced October 28, 1999. These 400,000 options, which were fully vested and exercisable, were issued outside of the 1992 Plan at an exercise price of $1.16 per share equal to the market price of the Common Stock on the date of grant. The fair market value of these options, which was determined by an independent third party using a growth model, was $63,560.

On May 25, 2001, the Board of Directors of the Company hired Seymour Holtzman, who had acted as the non-employee Chairman of the Board, as an executive officer and employee of the Company. Mr. Holtzman is also the President and Chief Executive Officer, and indirectly, with his wife, the primary shareholder of JMI. As part of Mr. Holtzman's employment with the company, he received an option to purchase up to 300,000 shares of Common Stock at a price of $3.88 per share, the closing price of the Common Stock on the date of grant. These options, which were issued outside of the 1992 Plan, will vest at a rate of 100,000 shares annually and will expire 10 years from the date of grant. See Note G for a full discussion of the Company's consulting agreements with JMI and Mr. Holtzman.

Stock Options with Other Board Members

During the fourth quarter of fiscal 2000, stock options to purchase an aggregate of 90,000 shares of Common Stock were issued outside of the 1992 Plan to three non-employee directors as part of their consulting agreements with the Company. These options have exercise prices between $1.16 and $1.44 and are fully vested and exercisable. Of the 90,000 options issued, 60,000 remain outstanding at February 2, 2002. See Note G for further discussion.

Stock Option Agreements with Executives

In March 2000, in connection with his initial employment with the Company, David A. Levin, President and Chief Executive Officer was granted 300,000 options to purchase shares of Common Stock at an exercise price of $1.19 per share. Of these 300,000 options, 225,000 of them were issued outside of the 1992 Plan. On May 26, 2001, the Company granted Mr. Levin an additional 125,000 options at an exercise price of $3.88 per share, 50,000 of which were granted outside of the 1992 Plan.

In September 2000, in connection with his initial employment with the Company, Dennis R. Hernreich, Senior Vice President and Chief Financial Officer, was granted 60,000 options to purchase shares of Common Stock at an exercise price of $2.06 per share. In November 2000, Mr. Hernreich was granted an additional 25,000 options to purchase shares of Common Stock at an exercise price of $2.38 per share. Of these 25,000 options, 10,000 of them were issued outside of the 1992 Plan. On May 26, 2001, the Company granted to Mr. Hernreich an additional 100,000 options at an exercise price of $3.88 per share, 25,000 of which were granted outside of the 1992 Plan.

In October 2001, in connection with his initial employment with the Company, Ronald N. Batts, Senior Vice President of Operations, was granted 50,000 options to purchase shares of Common Stock at an exercise price of $2.75 per share.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its plans. FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and requires the Company to elect either expense recognition under SFAS 123 or its disclosure-only alternative for stock-based employee compensation. The Company has elected the disclosure-only alternative and, accordingly, no compensation cost has been recognized. The Company has disclosed the pro forma net income or loss and per share amounts using the fair value based method. Had compensation costs for the Company's grants for stock-based compensation been determined consistent with SFAS 123, the Company's net income (loss) and income (loss) per share would have been as indicated below:

	FISCAL YEARS ENDED		
(In Thousands, Except per Share Amounts)	February 2, 2002	February 3, 2001	January 29, 2000
Net income (loss) - as reported	$ (7,881)	$ 3,216	$ (12,493)
Net income (loss) – pro-forma	$ (8,158)	$ 3,109	$ (12,614)
Income (loss) per share- basic and diluted as reported	$ (0.54)	$ 0.20	$ (0.78)
Income (loss) per share- basic and diluted pro- forma	$ (0.56)	$ 0.19	$ (0.78)

The effects of applying SFAS 123 in this pro-forma disclosure are not likely to be representative of the effects on reported net income for future years. SFAS 123 does not apply to awards prior to 1995 and additional awards are anticipated.

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal 2002, 2001 and 2000: expected volatility of 91.8% in fiscal 2002, 91.7% in fiscal 2001 and 93.7% in fiscal 2000; risk-free interest rate of 5.0%, 4.8% and 6.6% in fiscal 2002, 2001 and 2000, respectively; and expected lives of 4.5 years. No dividend rate was used for fiscal 2002, 2001 and 2000. The weighted- average fair value of options granted in fiscal 2002, 2001 and 2000 was $2.78, $1.22 and $1.60, respectively.

Stock Repurchase Programs

During the second and third quarters of fiscal 2001, the Company repurchased 863,000 shares of Common Stock at an aggregate cost of $1,861,000 under a Stock Repurchase Program that was approved by the Company's Board of Directors in June 2000. In the fourth quarter of fiscal 2001, the Company repurchased 1.8 million shares of Common Stock at $2.50 per share through a "Dutch Auction" tender offer. Under the terms of the offer, the Company invited its shareholders to tender their shares to the Company at prices specified by the tendering shareholders not in excess of $3.00 nor less than $2.20 per share, in ten-cent ($0.10) increments. The Company selected the lowest single per-share purchase price that would allow it to buy 1.5 million shares, or up to an additional 1.0 million shares at the Company's option.

At February 2, 2002, the Company has a total of 3,040,000 million shares of repurchased stock at an aggregate cost of $8.5 million which is reported by the Company as treasury stock and is reflected as a reduction in stockholders' equity.

In fiscal 2001, the Company utilized two brokerage firms in connection with the repurchase of the 863,000 shares of Common Stock. Sterling Financial Investment Group, Inc. ("Sterling Financial"), one of the firms used, is owned by a family relation of Seymour Holtzman, the Chairman of the Company's Board of Directors. The Company negotiated a commission of $0.03 per share with each brokerage firm for trades executed as part of the Company's stock repurchase program. The Company paid Sterling Financial total commissions of $20,940 for trades they executed as part of the Company's stock repurchase program.

These shares were purchased in the open market and were recorded by the Company as treasury stock and are reflected as a reduction in stockholders' equity. Treasury shares also include restricted shares of the Company which were forfeited by associates.

G. RELATED PARTIES

Jewelcor Management, Inc.
On October 28, 1999, the Company entered into a consulting agreement with Jewelcor Management, Inc. ("JMI") to assist in developing and implementing a strategic plan for the Company and for other related consulting services as may be agreed upon between JMI and the Company. Seymour Holtzman, who became the Company's Chairman of the Board on April 11, 2000, is the beneficial holder of approximately 22% of the outstanding Common Stock (principally held by JMI). He is also the President and Chief Executive Officer, and indirectly, with his wife, the primary shareholder of JMI. As compensation for these services, JMI was given the right to receive a non-qualified stock option to purchase up to 400,000 shares of Common Stock, exercisable at the closing price of the Common Stock on October 28, 1999. JMI was also entitled to certain additional compensation in respect of its services under the consulting agreement, which was paid to JMI in shares of Common Stock in lieu of cash. The total value of the compensation paid to JMI under this agreement was $347,560, which consisted of (i) stock options to purchase 400,000 shares of Common Stock, which was valued by an independent third party, using a growth model, at $63,560 and (ii) the issuance of 203,489 shares of Common Stock, which had an aggregate market value of $240,000.

On June 26, 2000, the Company extended its consulting arrangement with JMI for an additional one-year period commencing on April 29, 2000 and ending on April 29, 2001. As payment for services rendered under this extended agreement, the Company issued to JMI 182,857 non-forfeitable and fully vested shares of Common Stock. The fair value of those shares on June 26, 2000, the date of issuance, was $240,000 or $1.3125 per share. The agreement also includes a significant disincentive for non-performance, which would require JMI to pay to the Company a penalty equal to 150% of any unearned consulting services.

On May 25, 2001, the Board of Directors approved the extension of the existing consulting agreement with Jewelcor Management Inc. ("JMI") for an additional one-year term commencing on April 29, 2001 and ending on April 28, 2002. As payment for services rendered under this agreement, the Company issued to JMI 61,856 non-forfeitable and fully vested shares of Common Stock. The fair value of those shares on May 25, 2001, the date of issuance, was $240,000 or $3.88 per share.

On May 25, 2001, the Board of Directors decided to hire Mr. Holtzman, who had served as the Company's non-employee Chairman of the Company, as an officer and employee of the Company. In connection with the hiring of Mr. Holtzman, the Board granted Mr. Holtzman an option, outside of the 1992 Plan, to purchase an aggregate of 300,000 shares of Common Stock at an exercise price of $3.88 per share, equal to the closing price of the Common Stock on that date. The option represents the principal portion of Mr. Holtzman's compensation as an employee of the Company.

In fiscal 2000, the Company also reimbursed JMI in the amount of $400,000, which was paid in shares of Common Stock, for expenses incurred by JMI in connection with the 2000 proxy solicitation. Based on the closing price of the stock on October 29, 1999, JMI received 346,021 shares of Common Stock.

Arrangements with Other Directors
In fiscal 2000, the Company also entered into three consulting agreements with three of its other Board members: John J. Schultz, Robert L. Patron and George T. Porter, Jr.

On October 28, 1999, the Company engaged John J. Schultz, under a consulting agreement, to act as President and Chief Executive Officer of the Company on an interim basis and to assist in the search for a permanent President and Chief Executive Officer. Mr. Schultz was paid a rate of $2,000 per day, payable at his election in cash or in shares of Common Stock, plus reimbursement of reasonable out-of-pocket expenses. Mr. Schultz was paid $63,179 and $83,311 as compensation and reimbursement of related expenses during fiscal 2001 and 2000, respectively. As part of his compensation, Mr. Schultz was also granted stock options exercisable for up to 95,000 shares of Common Stock. The per share exercise price of these options was the closing price of the Common Stock on the date of grant. On January 12, 2001, Mr. Schultz resigned as a Director of the Company. In conjunction with his resignation, Mr. Schultz exercised 105,000 options and sold the shares issued upon exercise back to the Company. Such options related to his services as a board member in addition to his consulting agreement. The Company paid Mr. Schultz $97,032, which represented the spread between the closing price of Common Stock on January 12, 2001 of $2.1875 per share and the exercise price of the various options. The Company holds these 105,000 repurchased shares of Common Stock as treasury stock at February 2, 2002.

On November 19, 1999, the Company entered into a consulting agreement with Business Ventures International, Inc., a company affiliated with Robert Patron, a member of the Company's Board, to advise the Company with regard to real estate matters. As compensation for these services, Mr. Patron is paid a rate of $2,000 per day, payable at his election in cash or in shares of Common Stock, plus reimbursement of reasonable out-of-pocket expenses. Mr. Patron was paid $35,362 and $14,000 as compensation and reimbursement of related expenses for fiscal 2001 and 2000, respectively. No compensation for professional services under this agreement were paid in fiscal 2002. As part of his compensation, Mr. Patron was also granted stock options exercisable for up to 30,000 shares of Common Stock. The per share exercise price of these options was the closing price of shares of Common Stock on the date of grant. All 30,000 options remain outstanding at February 2, 2002.

On February 8, 2000, the Company retained Mr. Porter as a consultant to advise the Company with regard to merchandising strategies and operations. As compensation for these services, Mr. Porter is paid a rate of $2,000 per day, payable at his election in cash or in shares of Common Stock, plus reimbursement of reasonable out-of-pocket expenses. Mr. Porter was paid $13,661 and $7,373 as compensation and reimbursement for related expenses for fiscal 2001 and 2000, respectively. No compensation for professional services under this agreement were paid in fiscal 2002. As part of his compensation, Mr. Porter was also granted stock options exercisable for up to 30,000 shares of Common Stock. The per share exercise price of these options was the closing price of shares of Common Stock on the date of grant. All 30,000 options remain outstanding at February 2, 2002.

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

H. EMPLOYEE BENEFIT PLANS

The Company has a defined contribution 401(k) plan that covers all eligible employees who have completed one year of service. Under this plan, the Company may provide matching contributions up to a stipulated percentage of employee contributions. The expenses of the plan are fully funded by the Company; and the matching contribution, if any, is established each year by the Board of Directors. For fiscal 2002, the matching contribution by the Company was set at 50% of contributions by eligible employees up to a maximum of 6% of salary. The Company recognized $137,000, $159,000 and $141,000 of expense under this plan in fiscal 2002, 2001 and 2000, respectively.

I. RESTRUCTURING

Fiscal 2000

During the fourth quarter of fiscal 2000, the Company recorded a pre-tax charge of $15.2 million related to inventory markdowns, the abandonment of the Company's Boston Traders® and related trademarks, severance, the closure of the Company's five Buffalo Jeans ® Factory Stores and its five remaining Designs stores. All of these stores were closed and all employees were severed by the end of fiscal 2000. Of the $15.2 million charge, $7.8 million, which relates to markdowns, is reflected as a reduction in gross margin for fiscal 2000. This pre-tax charge of $15.2 million included cash costs of approximately $3.6 million related to lease terminations and corporate and store severance, and approximately $11.6 million of non-cash costs related to inventory markdowns and the impairment of trademarks and store assets. In addition, the Company also recorded a write-down of tax assets of $6.0 million attributable to the potential that certain deferred federal and state tax assets may not be realizable.

The total cost of store closings and severance was $182,000 less than the original charge due to favorable lease negotiations on lease termination payments. As a result, the Company recognized income of $182,000 in the fourth quarter of fiscal 2001 which was reflected in the Provision for impairment of assets, store closings and severance on the Consolidated Statement of Operations for fiscal 2001. There is no remaining restructuring reserve balance at February 2, 2002.

J. ACQUISITIONS AND NEW BUSINESS ARRANGEMENTS

License Agreement with Candies, Inc.

In January 2002, the Company entered into a license agreement with Candie's, Inc. ("Candie's"), a leading designer and marketer of young women's footwear, apparel and accessories. The Candie's® license agreement provides the Company with the exclusive right to open and operate Candie's® branded stores in outlet malls and value centers throughout the United States and Puerto Rico as long as the Company opens the requisite number of outlet stores per year, and reaches 75 outlet stores in five years. Generally, to maintain the exclusivity in the value centers, the Company must open approximately five stores per year. If the Company does not maintain the store opening schedule required in the license agreement, the Company may lose the right to operate the existing stores within an exclusive radius until the expiration of the term. The license agreement also establishes that product purchased from Candie's will be priced according to a cost-plus formula. Among other terms of the license agreement, the Company can source its own Candie's® merchandise product for the retail stores of Candie's or its licensees cannot supply the appropriate merchandise assortments or quantities, as deemed by the Company.

In conjunction with this agreement, the Company also acquired from Candies, Inc. one of its existing outlet stores located in Wrentham, Massachusetts. The Company paid a purchase price of $434,000 for the appraised value of the assets, which included inventory of approximately $105,000, furniture and fixtures of approximately $154,000 and goodwill for the remaining $175,000. The Company also assumed the obligations associated with the real estate leases for that store. The operations of the Candie's® Outlet store, which were immaterial to the consolidated results for the Company, were included in financial results of the Company for the period of January 9, 2002 through February 2, 2002.

Joint Venture Agreement with EcKo Complex, LLC

Subsequent to fiscal 2002, the Company announced that it had entered into a joint venture with EcKo Complex, LLC ("EcKo"), a privately held company with worldwide annual sales exceeding $200 million, to open and operate EcKo® branded outlet stores throughout the United States. EcKo® is a leading design-driven lifestyle brand targeting young men and women.

Under the joint venture with EcKo, the Company, a 50.5% partner, would own and manage retail outlet stores bearing the name EcKo® Unltd. and featuring EcKo® branded merchandise. EcKo's contribution to the joint venture is the use of its trademark and the merchandise requirements at cost of the retail outlet stores. The Company will contribute all real estate and operating requirements of the retail outlet stores, including but not limited to, the real estate leases, payroll needs and advertising. Each partner will share in the operating profits of the joint venture, after each partner has received reimbursement for cost contributions. Under the terms of the agreement, the Company must maintain a prescribed store opening schedule and open 75 stores over a six year period in order to maintain the joint venture's exclusivity. At certain times during the term of the agreement, the Company may exercise a put option to sell its share of the retail joint venture,

and EcKo has an option to acquire the Company's share of the retail joint venture at a price based on the performance of the retail outlet stores.

For financial reporting purposes, the joint venture's assets, liabilities and results of operations will be consolidated with those of the Company and EcKo's 49.5% ownership interest in the joint venture will be included in the Company's consolidated financial statements as minority interest.

K. SELECTED QUARTERLY DATA (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FULL YEAR
	(In Thousands, Except Per Share Data)				
FISCAL YEAR 2002					
Net Sales	$ 39,395	$ 47,698	$ 54,301	$ 53,725	$ 195,119
Gross Profit	9,405	13,015	12,644	12,157	47,221
Net Income (Loss) [(1)]	(1,368)	715	538	(7,766)	(7,881)
Earnings (loss) per Share – Basic	(0.09)	0.05	0.04	(0.53)	(0.54)
Earnings (loss) per Share – Diluted	(0.09)	0.05	0.04	(0.53)	(0.54)
FISCAL YEAR 2001					
Net Sales	$ 39,379	$ 45,693	$ 56,587	$ 52,871	$ 194,530
Gross Profit	10,652	13,421	17,385	13,527	54,985
Net Income (Loss)	(474)	1,084	2,891	(285)	3,216
Earnings (loss) per Share – Basic	(0.03)	0.07	0.18	(0.02)	0.20
Earnings (loss) per Share – Diluted	(0.03)	0.06	0.18	(0.02)	0.20

(1) In the fourth quarter of fiscal 2002, the Company recorded a write-down of its deferred tax assets of $8.0 million attributable to the potential that certain federal net operating loss carryforwards may not be realizable.

Historically, the Company has experienced seasonal fluctuations in net sales, gross profit and net income, with increases occurring during the Company's third and fourth quarters as a result of "Fall" and "Holiday" seasons. In recent years, as the Company's percentage of outlet business increases in relation to total sales, the Company expects that the third and fourth quarters will decrease as a percentage of total sales. Quarterly sales comparisons are not necessarily indicative of actual trends, since such amounts also reflect the addition of new stores, closing of stores and the remodeling of stores during these periods.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

On October 3, 2000, Deloitte & Touche LLP resigned as the Company's independent accountants. On October 11, 2000, Ernst & Young LLP (Ernst & Young) was engaged as the Company's new principal independent auditors. The Company's Board of Directors and its Audit Committee unanimously approved the change of principal independent auditors.

Since Deloitte & Touche LLP was retained on December 21, 1999 and thereafter through October 3, 2000, there were no disagreements between the Company and Deloitte & Touche LLP on matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused Deloitte & Touche LLP to make reference to the subject matter thereof in its reports. Since Deloitte & Touche LLP was retained on December 21, 1999 and thereafter through October 3, 2000, there was no occurrence of the kinds of events described in Item 304(a)(1)(v) of Regulation S-K promulgated by the Securities and Exchange Commission. In addition, none of the reports issued by Deloitte & Touche LLP concerning the Company's financial statements since it was retained on December 21, 1999 and thereafter through October 3, 2000 contain any adverse opinion or disclaimer of opinion. Such report was not qualified or modified as to uncertainty, audit scope, or accounting principles.

PART III.

Item 10. *Directors and Executive Officers of the Registrant*

Certain information concerning the directors of the Company is set forth below:

NAME (1)	AGE	POSITION	DIRECTOR SINCE
Seymour Holtzman……………	65	Chairman of the Board and Director	2000
David A. Levin………………..	51	President, Chief Executive Officer and Director	2000
Stanley I. Berger………………	72	Director	1976-1999 and 2000
Jesse Choper…………………..	66	Director (2),(3)	1999
Alan Cohen…………………….	65	Director	2000
Jeremiah P. Murphy, Jr. ………	50	Director (2),(4)	1999
Joseph Pennacchio ……………	55	Director (2),(3),(4)	1999
George T. Porter, Jr. ………..…	55	Director	1999

(1) Robert Patron, a director of the Company since October 2000, resigned his position effective March 11, 2002.
(2) Current member of the Audit Committee.
(3) Current member of the Compensation Committee.
(4) Current member of the Corporate Governance Committee.

Seymour Holtzman was appointed a director of the Company on April 7, 2000 and Chairman of the Board on April 11, 2000. On May 25, 2001, the Board of Directors of the Company hired Mr. Holtzman as an officer and an employee of the Company. Mr. Holtzman is Chairman and Chief Executive Officer of: Jewelcor Management Inc.; C.D. Peacock, Inc., a prominent Chicago, Illinois retail jewelry establishment; and S.A. Peck & Company, a retail and mail order jewelry company. In addition, Mr. Holtzman served as President and Chief Executive Officer of Jewelcor Incorporated (a formerly New York Stock Exchange listed company) from 1973 to 1988. From 1986 to 1988, Mr. Holtzman was Chairman and Chief Executive Officer of Gruen Marketing Corporation (a formerly American Stock Exchange listed company), which distributed watches nationwide and operated retail factory outlets. Mr. Holtzman is currently on the Board of Directors of Little Switzerland, Inc. and Ambanc Holding Co., Inc.

David A. Levin was appointed President and Chief Executive Officer of the Company on April 10, 2000 and a director of the Company on April 11, 2000. From 1999 to 2000, he served as the Executive Vice President of eOutlet.com. Mr. Levin was President of Camp Coleman, a division of The Coleman Company, from 1998 to 1999. Prior to that, Mr. Levin was President of Parade of Shoes, a division of J. Baker, Inc., from 1995 to 1997. In addition, Mr. Levin was President of Prestige Fragrance & Cosmetics, a division of Revlon, Inc., from 1991 to 1995. Mr. Levin has worked in the retail industry for almost 30 years.

Stanley I. Berger is a founder of the Company and served as Chairman of the Board from 1976 to 1999. Mr. Berger also served as the Company's Chief Executive Officer from January 1993 until December 1994. Prior to January 1993, Mr. Berger served as the President and Chief Operating Officer of the Company since 1977. Mr. Berger has been a director of the Company since its inception, except for the period between October 8, 1999 and April 11, 2000.

Jesse Choper was elected a director of the Company on October 8, 1999. Mr. Choper is the Earl Warren Professor of Public Law at the University of California at Berkeley School of Law, where he has taught since 1965. From 1960 to 1961 Professor Choper was a law clerk for Supreme Court Chief Justice Earl Warren. Mr. Choper is also on the Board of Directors of musicmaker.com, Inc.

Alan Cohen was appointed as a director of the Company on May 2, 2000. Mr. Cohen has been Chairman of Alco Capital Group, which specializes in corporate restructuring, reorganizations, and other turnaround situations, since 1975. Currently he serves as the court appointed trustee of County Seat Stores, Inc., a nation-wide chain of specialty apparel stores. Mr. Cohen is also on the Board of Directors of Ames Department Stores, Inc.

Jeremiah P. Murphy, Jr. was elected a director of the Company on October 8, 1999. Mr. Murphy has been the President of the Harvard Cooperative Society, a 120-year-old member based retail business, since 1992. From 1987 to 1992, Mr. Murphy was Vice-President/General Manager of Neiman Marcus' largest and most profitable store, North Park in Dallas, Texas.

Joseph Pennacchio was elected a director of the Company on October 8, 1999. Mr. Pennacchio has been Chief Executive Officer of Aurafin LLC, a privately held jewelry manufacturer and wholesaler, since 1997. From May 1994 to May 1996, Mr. Pennacchio was President of Jan Bell Marketing, a $250 million jewelry retailer, which is listed on the American Stock Exchange. Mr. Pennacchio was also President of Jordan Marsh Department Stores from 1992 to 1994.

George T. Porter, *Jr.* was appointed a director of the Company on October 28, 1999. Mr. Porter was President of Levi's USA for Levi Strauss & Co. from 1994 to 1997. Beginning in 1974, Mr. Porter held various positions at Levi Strauss & Co., including President of Levi's Men's Jeans Division. Mr. Porter was also Corporate Vice President, General Manager, Nike USA from 1997 to 1998.

All directors hold office until the next Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified.

Executive Officers

Dennis R. Hernreich, 45, has been Senior Vice President, Chief Financial Officer and Treasurer since September 5, 2000. Prior to joining the Company, from 1996 through 1999, Mr. Hernreich held the position of Senior Vice President and Chief Financial Officer of Loehmann's Inc., a national retailer of women's apparel. Most recently, from 1999 to August 2000, Mr. Hernreich was Senior Vice President and Chief Financial Officer of Pennsylvania Fashions, Inc., a 275-store retail outlet chain operating under the name Rue 21.

Ronald N. Batts, 52, has been Senior Vice President of Operations since October 22, 2001. Mr. Batts previously worked as Senior Vice President of Retail for the Haggar Clothing Company where he established and directed Haggar Direct, Inc., a consumer direct start-up company. Prior to Haggar, Mr. Batts was Chief Operating Officer for Mothercare stores, a 238 store national maternity and childrenswear specialty chain. In addition, he has served as Chief Executive Officer of CSVA, Inc., a venture capital funded retail acquisition company, as President of Eckerd Apparel, a division of Jack Eckerd Corporation, and as President of two divisions of Mercantile Stores.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities (collectively, the "Reporting Persons"), to file reports of ownership and changes in ownership with the Commission. The Reporting Persons are required to furnish the Company with copies of all Section 16(a) reports they file. Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during fiscal 2002 and Forms 5 and amendments thereto furnished to the Company with respect to fiscal 2002, the Company believes that the current Reporting Persons complied with all applicable Section 16(a) reporting requirements and all required reports were filed in a timely manner.

Item 11. *Executive Compensation*

Summary Compensation Table. The following Summary Compensation Table sets forth certain information regarding compensation paid or accrued by the Company with respect to the Chief Executive Officer, the Chief Financial Officer and the Senior Vice President of Operations of the Company as of the end of fiscal 2002 and as of February 3, 2001 (“fiscal 2001”). The table also includes two former executives of the Company, including John J. Schultz, former Interim President and Chief Executive Officer from January 2000 through April 2000, and Dan O. Paulus, former Senior Vice President and General Merchandising Manager who resigned November 14, 2000 (collectively, the "Named Executive Officers"), for fiscal 2001 and the fiscal year ended January 29, 2000 ("fiscal 2000").

Summary Compensation Table

Name and Principal Position (at February 2, 2002)	Fiscal Year	Annual Compensation Salary	Annual Compensation Bonus	Long-Term Compensation Awards Options	All Other Compensation(1)
Seymour Holtzman Chairman of the Board (2)	2002	$ 18,616	$ -0-	300,000	$ -0-
David A. Levin President and Chief Executive Officer	2002	$ 382,374	-0-	125,000	$ 14,484
	2001	$ 311,758	-0-	300,000	$ 449
Dennis R. Hernreich Senior Vice President and Chief Financial Officer and Treasurer (3)	2002	$ 232,398	$ 15,000	100,000	$ 6,829
	2001	$ 121,610	$ 6,250	85,000	$ 85,307
Ronald N. Batts Senior Vice President of Operations (4)	2002	$ 86,432	$ 6,000	50,000	$ 10,403
John J. Schultz Former Interim President and Chief Executive Officer (5)	2001	$ 63,179	$ -0-	60,000	$ 0-
	2000	$ 58,000	$ -0-	30,000	$ -0-
Dan O. Paulus Former Senior Vice President and General Merchandise Manager (6)	2001	$221,928	$ -0-	35,000	$ 5,570
	2000	$233,700	$ 70,000	-0-	$ 3,540

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(1) The amounts disclosed in this column with respect to fiscal 2002 represent:
(i) payments by the Company of insurance premiums for term life insurance for the benefit of the executive officers (Mr. Levin $3,131, Mr. Hernreich $411 and Mr. Batts $124); (ii) matching contributions made by the Company for the benefit of each of the following executive officers to the Company's retirement plan (the "401(k) Plan") established pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") (Mr. Levin $4,482 and Mr. Hernreich $469); (iii) car allowances (Mr. Levin $6,872 and Mr. Hernreich $2,771); and (iv) reimbursement for relocation costs (Mr. Hernreich $3,177 and Mr. Batts $10,279).

(2) Mr. Holtzman was hired by the Company as an executive officer and employee of the Company on May 25, 2001. As compensation for his services, the Company granted to Mr. Holtzman an option to purchase up to 300,000 shares of the Company’s common stock, see “Employment Agreements” for more discussion.

(3) Mr. Hernreich's employment agreement entitles him to receive minimum monthly payments in respect of his annual bonus at the rate of $1,250 per month. Any annual bonus that the Compensation Committee determines shall be paid to Mr. Hernreich would be reduced by the total of all such payments made to the executive. During fiscal 2002 and fiscal 2001, Mr. Hernreich received a total of $15,000 and $6,250, respectively.

(4) Mr. Batts has been Senior Vice President of Operations since October 22, 2002. Mr. Batts' employment agreement entitles him to receive minimum monthly payments in respect of his annual bonus at the rate of $2,000 per month for the initial term of the agreement. Any annual bonus that the Compensation Committee determines shall be paid to Mr. Batts would be reduced by the total of all such payments made to the executive. During fiscal 2002, Mr. Batts received a total of $6,000, which represents the three months from when Mr. Batts started with the Company.

(5) Mr. Schultz acted in the position of interim President and Chief Executive Officer from October 20, 1999 until April 10, 2000.

(6) Mr. Paulus served as the Company's Senior Vice President and General Merchandise Manager from February 4, 2000 to November 14, 2000.

Option Grants Table. The following Option Grants Table sets forth certain information as of February 2, 2002, regarding stock options granted during fiscal 2002 by the Company to the Named Executive Officers.

Option Grants In Last Fiscal Year

	Individual Grants				Potential Realizable Value of Assumed Annual Rates of Stock Price Appreciation for Option Term (1)	
	Number of Shares of Common Stock Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	5%	10%
Seymour Holtzman	300,000	33.8%	$ 3.88	5/25/11	$ 732,033	$ 1,855,116
David A. Levin	125,000	14.1%	$ 3.88	5/25/11	$ 305,014	$ 772,965
Dennis R. Hernreich	100,000	11.3%	$ 3.88	5/25/11	$ 244,011	$ 618,372
Ronald N. Batts	50,000	5.6%	$ 2.75	10/22/11	$ 86,473	$ 219,140

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(1) The amounts shown on these columns represent hypothetical gains that could be achieved for the options if exercised at the end of the option term. These gains are based on assumed rates of stock appreciation (based on a market value on the date of the grant) of 5% and 10% compounded annually from the date the options were granted to their expiration date. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of the Common Stock and the date on which the options are exercised.

Aggregate Option Exercises and Fiscal Year-End Option Value Table. The following table sets forth information for the Named Executive Officers with respect to the exercise of stock options during the fiscal year ended February 2, 2002 and the year-end value of unexercised options.

Aggregated Option Exercises in Fiscal 2002 and Fiscal Year-End Option Values

			Number and Value of Securities Underlying Exercisable/ Unexercisable Shares (1)			
			Exercisable		Unexercisable	
Name	Shares Acquired on Exercise (#)	Value Realized ($)	# of Shares	Value	# of shares	Value
Seymour Holtzman	-0-	-0-	15,000	$ 40,938	315,000	$ 77,563
David A. Levin	-0-	-0-	100,000	$ 281,250	325,000	$ 577,500
Dennis R. Hernreich	-0-	-0-	28,334	$ 52,293	156,666	$ 16,582
Ronald N. Batts	-0-	-0-	-0-	$ -0-	50,000	$ 62,500

(1) Amounts are based on the difference between the closing price of the Company's Common Stock on February 1, 2002 ($4.00) and the exercise price.

401(k) Plan

On January 27, 1993, the Board of Directors adopted the 401(k) Plan. All eligible employees of the Company are entitled to participate in such plan. The 401(k) Plan permits each participant to defer up to fifteen percent of such participant's annual salary up to a maximum annual amount ($11,000 in calendar year 2002 and $10,500 in calendar years 2001 and 2000). The Board of Directors of the Company may determine, from fiscal year to fiscal year, whether and to what extent the Company will contribute to the 401(k) Plan by matching contributions made to such plan by eligible employees. During fiscal 2002, the matching contribution by the Company continued to be 50% of contributions by eligible employees up to a maximum of six percent of salary.

Key Man Insurance

In fiscal 2001, the Company obtained a key man life insurance policy in the amount of $2,000,000 on the life of Mr. Levin. In fiscal 2002, the Company obtained a key man life insurance policy in the amount of $2,000,000 on the life of Mr. Hernreich.

Employment Agreements

The Company entered into an employment agreement, effective as of March 31, 2000, with David A. Levin for a two-year term ending April 10, 2002. Mr. Levin's agreement was extended on April 10, 2001 by unanimous consent of the Board of Directors for an additional two- year term to end on April 10, 2004.

As of September 4, 2000, the Company entered into an employment agreement with Dennis R. Hernreich for a one-year term ending September 1, 2001. Mr. Hernreich's agreement was also extended as of April 25, 2001 by the unanimous consent of the Board of Directors for an additional one-year term to end on September 4, 2002.

As of October 22, 2001, the Company entered into an employment agreement with Ronald N. Batts for a one-year term ending October 22, 2002.

All three of these employment agreements with Messrs. Levin, Hernreich and Batts (collectively, the "Employment Agreements") automatically renew for successive one-year terms unless either party notifies the other to the contrary at least 90 days, or 60 days in the case of Mr. Batts, prior to expiration of the then current term.

The Employment Agreements require each executive officer to devote substantially all of the executive officer's time and attention to the business of the Company as necessary to fulfill his respective duties. Pursuant to the Employment Agreements, Messrs. Levin, Hernreich and Batts will be paid a base salary at an annual rate of $375,000, $225,000 and $240,000, respectively. The Employment Agreements with Messrs. Hernreich and Batts also contain a guaranteed discretionary prepayment of bonus in the annual amount of $15,000 and $24,000, respectively. The Employment Agreements provide that the annual rate of base salary for the renewal term may be increased by the Compensation Committee of the Board of Directors in its sole discretion. The Employment Agreements also provide for the payment of bonuses in such amounts as may be determined by the Compensation Committee. While Messrs. Levin, Hernreich and Batts are employed by the Company, the Company will provide each executive an automobile allowance in the amount of $600 per month. Each executive is entitled to vacation and to participate in and receive any other benefits customarily provided by the Company to its senior executives (including any bonus, retirement, short and long-term disability insurance, major medical insurance and group life insurance plans in accordance with the terms of such plans), including stock option plans, all as determined from time to time by the Compensation Committee.

The Employment Agreements for Messrs. Hernreich and Batts also provide for compensation to relocate to the Boston area. In accordance with their agreements, Messrs. Hernreich and Batts are entitled to receive a total amount of $85,000 for moving costs associated with their relocation to Boston. Mr. Hernreich received $85,000 less applicable taxes in fiscal 2001. In addition, Messrs. Hernreich and Batts are entitled to receive reimbursement for reasonable expenses associated with their temporary living arrangements.

Mr. Levin is entitled to receive an annual bonus of up to 50%, Mr. Hernreich is entitled to receive an annual bonus of up to 45%, and Mr. Batts is entitled to receive an annual bonus of up to 40% of their respective annual base salaries depending on the performance of the Company. The Compensation Committee of the Board of Directors shall determine, in its sole discretion, the amount of bonus to be paid to the executive officers. Mr. Levin is entitled to receive an annual bonus of 10% if the Company meets its annual projections for its fiscal budget plan, as approved by the Board of Directors. Any bonus paid to Messrs. Hernreich and Batts will first be reduced by the amount of the prepaid discretionary bonuses discussed above. No bonuses were paid, above the $15,000 paid to Mr. Hernreich and the $6,000 paid to Mr. Batts, in fiscal 2002.

On January 31, 2002, the Compensation Committee increased Messrs. Levin's and Hernreich's base salary to $430,000 and $280,000, respectively. Under the new terms, Mr. Hernreich's guaranteed discretionary prepayment of bonus is eliminated going forward. Messrs. Levin and Hernreich also received bonuses for fiscal 2002 of $70,000 and $45,000, respectively. These bonuses were paid in fiscal 2003; however, Mr. Hernreich's paid bonus was $30,000 which reflected the $15,000 prepayment paid in fiscal 2002.

The Employment Agreements provide that in the event the executive officer's employment is terminated by the Company at any time for any reason other than "justifiable cause" (as defined in the Employment Agreements), disability or death, the Company is required to pay executive the lesser of (1) the base salary for the remaining term of the related Employment Agreement or (2) an amount equal to one half of the executive's annual salary. If the remaining term of the related Employment Agreement on the date of termination is more than six months, the executive must make a good faith effort to find new employment and mitigate damages, costs and expenses to the Company. If he is terminated without justifiable cause within one year after a Change of Control of the Company (as defined in the Employment Agreements) has occurred, the executive shall receive a lump sum payment in the amount of (1) the base salary for the remaining term of the related Employment Agreement or (2) an amount equal to the current base salary for one year. The Employment Agreements contain confidentiality provisions pursuant to which each executive agrees not to disclose confidential information regarding the Company. The Employment Agreements also contain covenants pursuant to which each executive agrees, during the term of his employment and for a one-year period following the termination of his employment, not to have any connection with any business which competes with the business of the Company.

For purposes of the Employment Agreements, a "Change in Control of the Company" shall mean (i) any sale of all or substantially all of the assets of the Company to any person or group of related persons within the meaning of Section 13(d) of the Exchange Act (“Group”), (ii) any acquisition by any person or Group of shares of capital stock of the Company representing more than 50% of the aggregate voting power of the outstanding capital stock of the Company entitled under ordinary circumstances to elect the directors of the Company (“Voting Stock”) or (iii) any replacement of a majority of the Board of Directors of the Company over the twelve-month period following the acquisition of shares of the capital stock of the Company representing more than 10% of the Voting Stock by any person or Group which does not currently own more than 10% of such Voting Stock (unless such replacement shall have been approved by the vote of the majority of the directors then in office who either were members of the Board of Directors at the beginning of such twelve-month period or whose elections as directors were previously so approved).

On May 25, 2001, the Board of Directors hired Seymour Holtzman, who had served as the Company’s non-employee Chairman of the Board, as an executive officer and employee of the Company. In connection with his hiring, the Board awarded Mr. Holtzman an option to purchase an aggregate of 300,000 shares of the Company’s Common Stock at $3.88 per share, equal to the closing price of the Common Stock on that date. The option vests at a rate of 100,000 shares per year over three years and expires ten years from date of grant. The option represents the principal portion of Mr. Holtzman’s compensation as an employee of the Company. Except for payment to Mr. Holtzman of $3,000 for his non-employee director fees, which were received prior to May 25, 2001, Mr. Holtzman received $18,616 in compensation during fiscal 2002.

Director Compensation

During fiscal 2002, non-employee directors of the Company were paid $3,000 plus expenses for each meeting of the Board of Directors in which they participated. During fiscal 2001, non-employee directors of the Company were paid, in addition to reimbursement of expenses, for meetings of committees of the Board in which they participated as follows: $3,000 for each Compensation Committee meeting; $1,500 for each Audit Committee meeting; and $1,500 for each Corporate Governance Committee meeting. During fiscal 2002, non-employee directors of the Company were also eligible to participate in the Company's 1992 Stock Incentive Plan, as amended (the "1992 Stock Incentive Plan"). Prior to January 20, 2000, under the provisions of the 1992 Stock Incentive Plan, each non-employee director of the Company who was elected by the stockholders to the Board would automatically be granted, upon such election, a stock option to purchase 10,000 shares of Common Stock at the fair market value of Common Stock on the date of grant. Each non-employee director of the Company who was re-elected by the stockholders to the Board would be granted, upon such re-election, a stock option to purchase 3,000 shares of Common Stock at the then fair market value of Common Stock. On January 20, 2000, the Board of Directors amended the plan to provide for the grant to each non-employee director of the Company a stock option to purchase 15,000 shares of Common Stock upon such director’s election and a stock option to purchase 15,000 shares of Common Stock upon such director’s re-election. On June 26, 2001, the plan was further amended by the Board of Directors to provide that each of such stock options would become exercisable in three equal annual installments commencing with the date of grant. All options are granted with a term of ten years .

The 1992 Stock Incentive Plan also provides that non-employee directors of the Company may elect to receive all or a portion of their directors' fees, on a current or deferred basis, in shares of Common Stock that are free of any restrictions under the 1992 Stock Incentive Plan by entering into an irrevocable agreement with the Company in advance of the beginning of a calendar year. During fiscal 2002, all non-employee directors elected to receive their directors’ fees in Common Stock.

Compensation Committee Interlocks and Insider Participation

Persons serving on the Compensation Committee had no relationships with the Company in fiscal 2002 other than their relationship to the Company as directors entitled to the receipt of standard compensation as directors and members of certain committees of the Board and their relationship to the Company as beneficial owners of shares of Common Stock and options exercisable for shares of Common Stock. No person serving on the Compensation Committee or on the Board of Directors is an executive officer of another entity for which an executive officer of the Company serves on such entity's board of directors or compensation committee.

COMPENSATION COMMITTEE REPORT

Decisions concerning the compensation of the Company's executive officers generally are made by the two-member Compensation Committee of the Board of Directors. Each member of the Compensation Committee is a non-employee director of the Company. This Compensation Committee Report summarizes the Company's executive officer compensation practices and policies for fiscal year 2002. The Compensation Committee consists of two members, Joseph Pennacchio and Jesse Choper.

Compensation Policies

The Company's compensation policies are designed to link executive officer compensation to the annual and long-term performance of the Company and to provide industry-competitive compensation for such officers. The Company's executive officer compensation consists of two key components: (1) an annual component, consisting of annual base salary and annual incentive bonus, if any, and (2) a long-term component consisting of the grant of stock options.

The policies with respect to each of these elements, as well as the bases for determining the compensation of the Company's executives, are described below.

(1) Annual Component: Base Salary and Annual Incentive Bonus
The Compensation Committee reviews all base salaries for executive officers and establishes them by reviewing the performance of each executive officer, evaluating the responsibilities of each executive officer's position and comparing the executive officers' salaries with salaries of executive officers of other companies in the specialty retail apparel industry (the "Industry"). The Compensation Committee defines the Industry as public companies in the specialty retail apparel business with similar sales and market capitalization. Annual base salary adjustments are influenced by the Company's performance in the previous fiscal year and the individual's contribution to that performance, the individual's performance, promotions of the individual that may have occurred during the fiscal year, and any increases in the individual's level of responsibility (which is measured by various factors including, but not limited to, the number of departments and employees for which the executive officer is responsible). Under the Company's employment agreements with Messrs. Levin, Hernreich and Batts, compensation for such executive officers had a base salary element and annual cost of living increases for fiscal 2002. As discussed previously, on January 31, 2002, the Compensation Committee increased the base salaries of Messrs. Levin and Hernreich.

(2) Long-Term Component: Stock Options
To align executive officers' interests more closely with the interests of the stockholders of the Company, the Company's long-term compensation program emphasizes the grant of stock options exercisable for shares of Common Stock. The amount of such awards is determined one or more times in each fiscal year by the Compensation Committee. Stock options normally are granted to executive officers in amounts based largely upon the size of stock-based awards of other companies in the Industry for comparable positions as well as the availability of shares of Common Stock under the 1992 Stock Incentive Plan. The Compensation Committee may take into account other factors in determining the size of stock option grants, including, but not limited to, the need to attract and retain individuals the Compensation Committee perceives to be valuable to the Company.

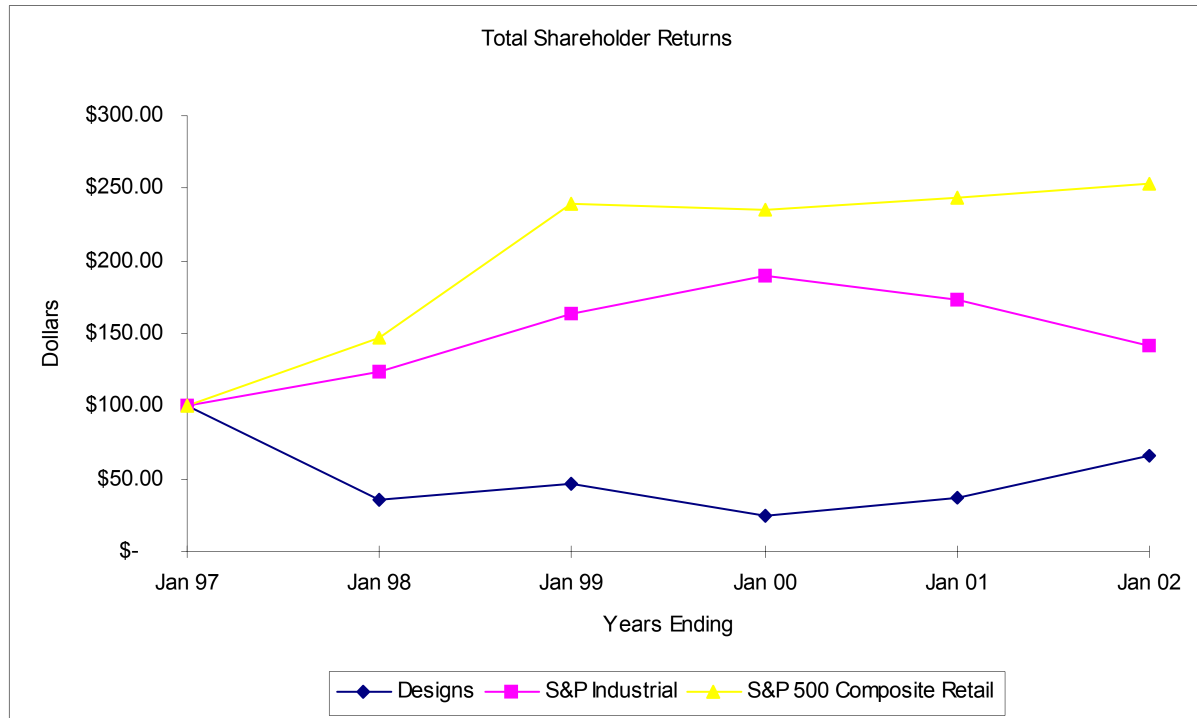
In addition to the foregoing, executive officers receive benefits under certain group health, long-term disability and life insurance plans, which are generally available to the Company's eligible employees. After one year of service with the Company, the executive officers are eligible to participate in the 401(k) Plan. Benefits under these plans are not tied to corporate performance.

The Securities and Exchange Commission requires that this Compensation Committee Report comment upon the Compensation Committee's policy with respect to Section 162(m) of the Internal Revenue Code, which limits the Company's tax deduction with regard to compensation in excess of $1 million paid to the chief executive officer and the four most highly compensated executive officers (other than the chief executive officer) at the end of any fiscal year unless the compensation qualifies as "performance-based compensation." The Compensation Committee's policy with respect to Section 162(m) is to make every reasonable effort to cause compensation to be deductible by the Company while simultaneously providing executive officers of the Company with appropriate rewards for their performance.

THE COMPENSATION COMMITTEE
Joseph Pennacchio
Jesse Choper

PERFORMANCE GRAPH

The following Performance Graph compares the Company's cumulative stockholder return with that of a broad market index (Standard & Poor's Industrials Index) and one published industry index (Standard & Poor's 500 - Composite Retail Index) for each of the most recent five years ended January 31. The cumulative stockholder return for shares of the Company's Common Stock and each of the indices is calculated assuming that $100 was invested on January 31, 1997. The Company paid no cash dividends during the periods shown. The performance of the indices is shown on a total return (dividends reinvested) basis. The graph lines merely connect January 31 of each year and do not reflect fluctuations between those dates. In addition there is a chart of the annual percentage return of the Company's Common Stock, the S & P Industrial and Composite Retail 500.



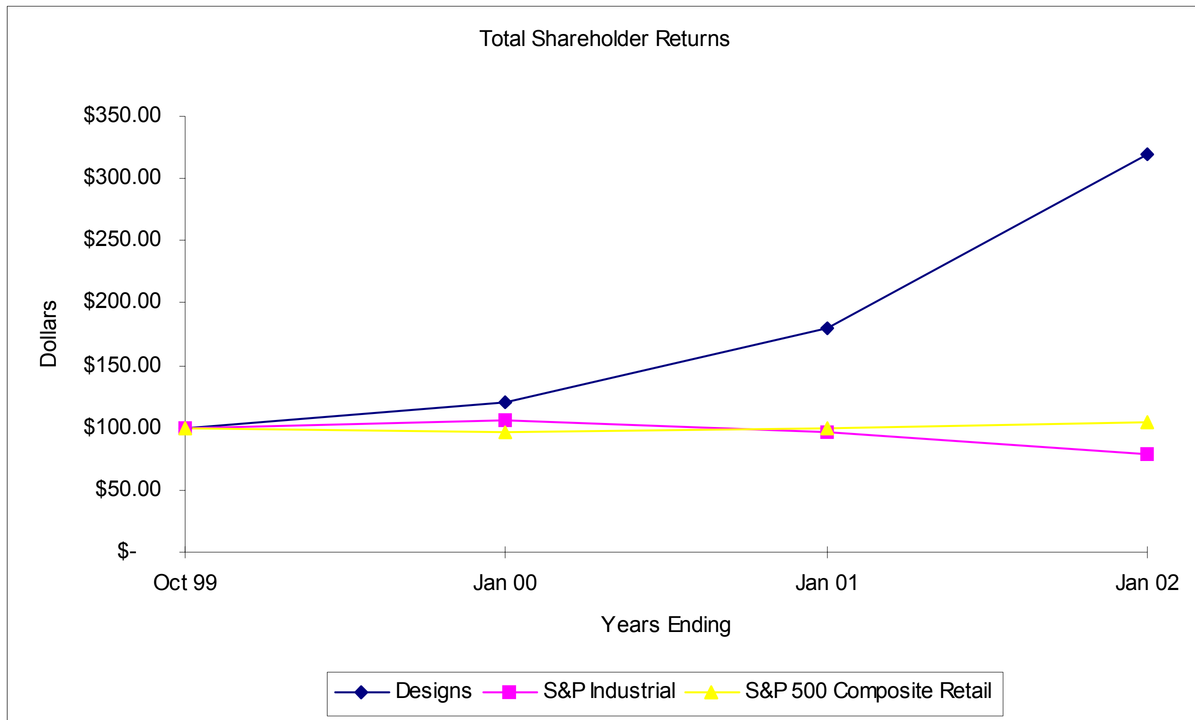
Annual Return Percentage
Years Ending

Company/Index	**Jan 98**	**Jan 99**	**Jan00**	**Jan 01**	**Jan 02**
DESIGNS, INC.	(63.54)	28.58	(46.67)	50.00	77.78
S&P INDUSTRIALS	23.80	32.14	16.12	(8.48)	(18.56)
COMPOSITE RETAIL- 500	46.73	62.73	(1.65)	3.46	4.13

Indexed Returns

Company/Index	**Base Period Jan 97**	Jan 98	Jan 99	Jan 00	Jan01	Jan02
DESIGNS, INC.	100	36.46	46.88	25.00	37.50	66.67
S&P INDUSTRIALS	100	123.80	163.59	189.96	173.86	141.59
COMPOSITE RETAIL - 500	100	146.73	238.78	234.85	242.97	253.01

To supplement the five year historical performance shown above, below is a Performance Graph which compares the Company's cumulative stockholder return since the change in control which occurred in October 1999. At the Company's Annual Meeting of Stockholders held in October 1999, the stockholders voted to elect a new slate of directors supported by Jewelcor Management, Inc.



Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information with respect to persons known to the Company to be the beneficial owners of more than five percent of the issued and outstanding shares of Common Stock as of April 8, 2002. The Company is informed that, except as indicated, each person has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by such person, subject to community property laws where applicable.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned		Percent of Class (1)
Jewelcor Management, Inc. ……………………………………… 100 N. Wilkes Barre Blvd. Wilkes Barre, Pennsylvania 18702	3,152,223	(2)	21.06%
Franklin Resources, Inc. …………………… …………………… One Franklin Parkway San Mateo, California 94403	1,030,000	(3)	7.07%
Stanley I. Berger………………………...................................... 100 Essex Road Chestnut Hill, Massachusetts 02467	1,004,679	(4)	6.88%
Dimensional Fund Advisors ……………………………………... 1299 Ocean Avenue, 11th Floor Santa Monica, California 90401	791,400	(5)	5.43%

(1) As of April 8, 2002, 14,567,886 shares of Common Stock were issued and outstanding.
(2) The Company has received a Statement of Changes in Beneficial Ownership on Form 4 dated February 4, 2002, stating that Jewelcor Management Inc. ("JMI") was the beneficial owner of the number of shares of Common Stock set forth opposite its name in the table. Includes options to acquire 400,000 shares of Common Stock. Excludes 132,765 shares, including options to acquire 120,000 shares, owned individually by Seymour Holtzman and 30,000 shares owned by Mr. Holtzman's grandchildren. Mr. Holtzman is the Chairman, President and Chief Executive Officer and, indirectly with his wife, the primary shareholder of JMI.
(3) The Company has received a Schedule 13G dated February 14, 2002, stating that Franklin Resources, Inc. was the beneficial owner of the number of shares of Common Stock set forth opposite its name in the table.
(4) Includes options to acquire 25,000 shares of Common Stock.
(5) The Company has received a Schedule 13G dated January 30, 2002, stating that Dimensional Fund Advisors was the beneficial owner of the number of shares of Common Stock set forth opposite its name in the table.

Security Ownership of Management

The following table sets forth certain information as of April 8, 2002, with respect to the directors of the Company, the Named Executive Officers and the directors and executive officers of the Company as a group. Except as indicated, each person has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by such person, subject to community property laws where applicable.

Name and Title	Number of Shares Beneficially Owned		Percent of Class (1)
Seymour Holtzman Chairman of the Board and Director	3,314,988	(2)	21.97%
David A. Levin Chief Executive Officer, President and Director	457,167	(3)	3.09%
Dennis R. Hernreich Chief Financial Officer, Senior Vice President and Treasurer	84,268	(4)	*
Ronald N. Batts Senior Vice President of Operations	--		*
Stanley I. Berger, Director	1,004,679	(5)	6.88%
Jesse Choper, Director	67,136	(5)	*
Alan Cohen, Director	42,545	(5)	*
Jeremiah P. Murphy, Jr. , Director	63,446	(5)	*
Joseph Pennacchio, Director	60,332	(5)	*
George T. Porter, Jr. , Director	82,283	(6)	*
Directors and Executive Officers as a group (10 persons)(8)	5,176,844	(2)(7)	33.25%

* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options held by that person that are currently exercisable, or that become exercisable within 60 days, are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Percentage ownership is based on 14,567,886 shares of Common Stock outstanding as of April 8, 2002, plus securities deemed to be outstanding with respect to individual stockholders pursuant to Rule 13d-3(d)(1) under the Exchange Act.

(2) Mr. Holtzman may be deemed to have shared voting and investment power over 3,314,988 shares of Common Stock, which includes 3,152,223 shares (including options to acquire 400,000 shares) beneficially owned by JMI, of which Mr. Holtzman is the Chairman, President and Chief Executive Officer and indirectly, with his wife, the primary shareholder; 132,765 shares owned individually, which includes 120,000 shares subject to stock options exercisable within 60 days; and 30,000 shares owned by Mr. Holtzman's grandchildren as to which he disclaims beneficial ownership.

(3) Includes 241,667 shares subject to stock options exercisable within 60 days.

(4) Includes 61,668 shares subject to stock options exercisable within 60 days.

(5) Includes 25,000 shares subject to stock options exercisable within 60 days.

(6) Includes 55,000 shares subject to stock options exercisable within 60 days.

(7) Includes 1,003,335 shares subject to stock options exercisable within 60 days.

(8) Excludes 560,790 shares owned by Mr. Patron whom ceased to be a director of the Company during fiscal year 2002.

Item 13. *Certain Relationships and Related Transactions*

Jewelcor Management, Inc.

On October 28, 1999, the Company entered into a consulting agreement with Jewelcor Management, Inc. ("JMI") to assist in developing and implementing a strategic plan for the Company and for other related consulting services as may be agreed upon between JMI and the Company. Seymour Holtzman, who became the Company's Chairman of the Board of Directors on April 11, 2000, is a beneficial holder of approximately 22% of the outstanding Common Stock of the Company (principally held by JMI). He is also the President and Chief Executive Officer, and indirectly, with his wife, the primary shareholder of JMI. In fiscal 2000, JMI received compensation under this agreement totaling $347,560 which consisted of (i) a stock option to purchase 400,000 shares of the Company's Common Stock, which was valued by an independent third party, using a growth model, at $63,560 and (ii) the issuance of 203,489 shares of the Company's Common Stock, which had an aggregate market value of $240,000.

In June 2000, JMI received 182,857 non-forfeitable and fully vested shares of the Company's Common Stock in connection with the Company extending its consulting arrangement with JMI for an additional one-year period commencing on April 29, 2000 and ending on April 29, 2001. The fair value of those shares on June 26, 2000, the date of issuance, was $240,000 or $1.3125 per share. This consulting agreement was again extended through April 29, 2002 at the same terms and conditions. Under this extended agreement, JMI receives Common Stock of the Company each month equal to $20,000 per month. The agreement also includes a significant disincentive for non-performance, which would require JMI to pay to the Company a penalty equal to 150% of any unearned consulting services.

In fiscal 2000, the Company also reimbursed JMI in the amount of $400,000, which was paid in shares of the Company's Common Stock, for expenses incurred by JMI in connection with the October 1999 proxy solicitation. Based on the closing price of the stock on October 29, 1999, JMI received 346,021 shares of the Company's Common Stock.

Certain Arrangements with Other Directors

On February 8, 2000, the Company retained Mr. Porter as a consultant to advise the Company with regard to merchandising strategies and operations. As compensation for these services, Mr. Porter is paid a rate of $2,000 per day, payable at his election in cash or in shares of Common Stock, plus reimbursement of reasonable out-of-pocket expenses. Mr. Porter was paid $4,000 and $13,661 as compensation and reimbursement of related expenses for fiscal 2002 and 2001, respectively. As part of his compensation, Mr. Porter was also granted stock options exercisable for up to 30,000 shares of the Company's Common Stock. The per share exercise price of these options was the closing price of the Common Stock on the date of grant.

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

PART IV.

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

14(a)(1) Financial Statements

The list of consolidated financial statements and notes required by this Item 14(a)(1) is set forth in the "Index to Financial Statements" on page 24 of this Annual Report.

14(a)(2) Financial Statement Schedules

Schedule II- Valuation and Qualifying Accounts for the three fiscal years ended February 2, 2002, February 3, 2001 and January 29, 2000 on page 65 of this Annual Report.

All other schedules, other than the schedule listed above, have been omitted because the required information is not applicable or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the financial statements or notes thereto.

14(a)(3) Exhibits

The list of exhibits required by this Item 14(a)(3) is set forth in the "Index to Exhibits" beginning on page 66 of this Annual Report.

14(b) Reports on Form 8-K

None.

SCHEDULE II
DESIGNS, INC.

VALUATION AND QUALIFYING ACCOUNTS
For the Three Fiscal Years Ended February 2, 2002

Description	Balance at Beginning of Year	Net Provision (Benefit) (In thousands)		Charges/ Write-offs	Balance At End Year	
Accrued Restructuring Reserves						
Year ended January 29, 2000	$ 7,161	$ 14,545	(1)	$ (15,010)	$ 6,696	(3)
Year ended February 3, 2001	6,696	(182)	(2)	(5,662)	852	(4)
Year ended February 2, 2002	852	---		(852)	0	

(1) Included in the severance and store closing charge for fiscal 2000 of $14.5 million, is a markdown reserve of $7.8 million which was included in costs of goods sold for the fiscal 2000. In addition, the total provision of $14.5 million, included restructuring income of $717,000 recorded in the fourth quarter due to excess reserves which were established in fiscal 1999.

(2) The ($182,000) recognized in fiscal 2001 represents income recognized as a result of favorable lease negotiations on lease termination payments relating to the fiscal 2000 restructuring program.

(3) Included in the reserve balance at year end is a markdown reserve of $3.5 million which was included in inventory on the consolidated balance sheet.

(4) Included in the reserve balance at year end are the remaining severance and landlord settlement payments to be made in accordance with the fiscal 2000 restructuring program.

Exhibits

3.1	Restated Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1 to Amendment No. 3 of the Company's Registration Statement on Form S-1 (No. 33-13402), and incorporated herein by reference).	*
3.2	Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated June 22, 1993 (included as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q dated June 17, 1996, and incorporated herein by reference).	*
3.3	Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of the Company established Series A Junior Participating Cumulative Preferred Stock dated May 1, 1995 (included as Exhibit 3.2 to the Company's Annual Report on Form 10-K dated May 1, 1996, and incorporated herein by reference).	*
3.4	By-Laws of the Company, as amended (included as Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q dated December 12, 2000, and incorporated herein by reference).	*
10.1	1992 Stock Incentive Plan, as amended (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated September 18, 2001, and incorporated herein by reference).	*
10.2	License Agreement between the Company and Levi Strauss & Co. dated as of April 14, 1992 (included as Exhibit 10.8 to the Company's Annual Report on Form 10-K dated April 29, 1993, and incorporated herein by reference).	*
10.3	Amended and Restated Trademark License Agreement between the Company and Levi Strauss & Co. dated as of October 31, 1998 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference).	*
10.4	Amendment to the Amended and Restated Trademark License Agreement dated March 22, 2000 (included as Exhibit 10.7 to the Company's Annual Report on Form 10-K dated April 28, 2000, and incorporated herein by reference).	*
10.5	Second Amended and Restated Loan and Security Agreement dated as of December 7, 2000 among the Company and Fleet Retail Finance Inc., as agent for the Lender(s) identified therein (included as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q dated December 12, 2000, and incorporated herein by reference).	*
10.6	Amendment and Distribution Agreement dated as of October 31, 1998 among the Designs Partner, the Levi's Only Stores Partner and the Original Levi Store Partnership (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference).	*
10.7	Guaranty by the Company of the indemnification obligation of the Designs Partner dated as of October 31, 1998 in favor of LS & Co. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference).	*
10.8	Asset Purchase Agreement between Levi's Only Stores and the Company relating to the sale by the Company of stores located in Minneapolis, Minnesota dated	

January 28, 1995 (included as Exhibit 10.9 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). *

10.9 Asset Purchase Agreement among Boston Trading Ltd., Inc., Designs Acquisition Corp., the Company and others dated April 21, 1995 (included as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference). *

10.10 Non-Negotiable Promissory Note between the Company and Atlantic Harbor, Inc., formerly know as Boston Trading Ltd., Inc., dated May 2, 1995 (included as Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference). *

10.11 Asset Purchase Agreement dated as of September 30, 1998 between the Company and LOS relating to the purchase by the Company of 16 Dockers(R) Outlet and nine Levi's(R) Outlet stores (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 3, 1998, and incorporated herein by reference). *

10.12 Agreement Regarding Leases dated November 2, 2000 between the Company and O.M. 66 B Street LLC (included as Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q dated December 12, 2000, and incorporated herein be reference). *

10.13 Consulting Agreement dated as of December 15, 1999 between the Company and George T. Porter, Jr. (included as Exhibit 10.22 to the Company's Annual Report Form 10-K dated April 28, 2000, and incorporated herein by reference). *

10.14 Consulting Agreement dated as of November 14, 1999 between the Company and Business Ventures International, Inc. (included as Exhibit 10.23 to the Company's Annual Report on Form 10-K dated April 28, 2000, and incorporated herein by reference). *

10.15 Extension to Consulting Agreement, dated as of April 28, 2001, between the Company and Jewelcor Management, Inc. (included as Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q dated September 18, 2001, and incorporated herein by reference). *

10.16 Employment Agreement dated as of March 31, 2000 between the Company and David A. Levin (included as Exhibit 10.27 to the Company's Annual Report on Form 10-K dated April 28, 2000, and incorporated herein by reference). *

10.17 Amendment to Employment Agreement dated as of March 31, 2000 between the Company and David A. Levin (included as Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q dated June 19, 2001, and incorporated herein by reference). *

10.18 Secured Promissory Note dated as of June 26, 2000 between the Company and David A. Levin (included as Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q dated September 12, 2000, and incorporated herein by reference). *

10.19 Pledge and Security Agreement dated June 26, 2000 between the Company and David A. Levin (included as Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q dated September 12, 2000, and incorporated herein by reference). *

10.20 Employment Agreement dated as of August 14, 2000 between the Company and

	Dennis R. Hernreich (included as Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q dated September 12, 2000, and incorporated herein by reference).	*
10.21	Amendment to Employment Agreement dated as of August 14, 2000 between the Company and Dennis R. Hernreich (included as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q dated June 19, 2001, and incorporated herein by reference).	*
10.22	Employment Agreement dated as of October 22, 2001 between the Company and Ronald N. Batts (included as Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q dated December 14, 2001, and incorporated herein by reference).	*
10.23	Retail Store License Agreement dated as of January 9, 2002 between the Company and Candie's, Inc.	**
10.24	Retail Store License Agreement Amendment No. 1 dated January 15, 2002 between the Company and Candie's, Inc.	
18.1	Letter of Preferability from Ernst & Young dated June 13, 2001 (included as Exhibit 18.1 to the Company's Form 10-Q dated June 19, 2001, and incorporated herein by reference).	*
21	Subsidiaries of the Registrant.	
23.1	Consent of Ernst & Young LLP.	
23.2	Consent of Deloitte & Touche LLP.	
99	Report of the Company on Form 8-K, dated April 28, 2000 concerning certain cautionary statements of the Company to be taken into account in conjunction with consideration and review of the Company's publicly-disseminated documents (including oral statements made by others on behalf of the Company) that include forward looking information.	*

* Previously filed with the Securities and Exchange Commission.

** Material has been omitted from this exhibit pursuant to a request for confidential treatment. The omitted material has been filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DESIGNS, INC.

May 1, 2002

By: /s/ David A. Levin
David A. Levin
President and Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities indicated, on May 1, 2002.

Signatures	
/s/ David A. Levin David A. Levin	President and Chief Executive Officer (Principal Executive Officer)
/s/ Dennis R. Hernreich Dennis R. Hernreich	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ Seymour Holtzman Seymour Holtzman	Chairman of the Board of Directors
/s/ George T. Porter, Jr. George T. Porter, Jr.	Director
/s/ Joseph Pennacchio Joseph Pennacchio	Director
/s/ Jeremiah P. Murphy, Jr. Jeremiah P. Murphy, Jr.	Director
/s/ Stanley L. Berger Stanley L. Berger	Director
/s/ Jesse H. Choper Jesse H. Choper	Director
____________________ Alan Cohen	Director

OTHER SHAREHOLDER INFORMATION

Board of Directors
Seymour Holtzman
Chairman of the Board of Directors
Chief Executive Officer
Jewelcor Management, Inc.

Stanley L. Berger

Jesse Choper
Law Professor
University of California Law School

David A. Levin
President and Chief Executive Officer

Jeremiah P. Murphy, Jr.
President of Harvard Coop

Joseph Pennacchio
Chief Executive Officer of Aurafin

George T. Porter, Jr.

Alan Cohen

Executive Officers
David A. Levin
President and Chief Executive Officer

Dennis R. Hernreich
Senior Vice President
Chief Financial Officer, Treasurer and Secretary

Ronald N. Batts
Senior Vice President of Operations

Corporate Officers

Martin Goldstein
Vice President
Real Estate and Construction

Susan J. Murray
Director
Human Resources

Robert Wilbur
Vice President
Chief Information Officer

Corporate Offices

66 B Street
Needham, MA 02494
(781) 444-7222

Financial Information
Requests for financial information should be directed to the Investor Relations Department at the Company's headquarters: Designs, Inc., 66 B Street, Needham, MA 02494, (781) 444-7222**. A copy of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2002, filed with the Securities and Exchange Commission, may be obtained without charge upon request to the Investor Relations Department.**

Annual Meeting
The 2002 Annual Meeting of Stockholders of Designs, Inc. is expected to be held on or about August 8, 2002.

Approximate reporting dates for fiscal year 2003 quarterly earnings are:

Quarter 1:	May 20, 2002
Quarter 2:	August 19, 2002
Quarter 3:	November 18, 2002
Quarter 4 and fiscal year end:	March 17, 2003

Transfer Agent and Registrar
Inquiries regarding stock transfer requirements, address changes and lost stock certificates should be directed to:

Fleet National Bank
c/o EquiServe, LP
P.O. Box 43010
Providence, RI 02940
shareholder services: 781-575-3400

www.equiserve.com

Independent Auditors
Ernst & Young LLP
200 Clarendon Street
Boston, Massachusetts 02116-5072

Trademarks
"Dockers®," "Levi's®" and "Slates®" are registered trademarks of Levi Strauss & Co. "Candie's®" is a registered trademark of Candie's, Inc. "EcKo®" is a registered trademark of EcKo Complex, LLC.

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): **May 14, 2002**

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

Delaware	**0-15898**	**04-2623104**
(State or other jurisdiction of incorporation)	(Commission file number)	(I.R.S. employer identification no.)

66 B Street **Needham, Massachusetts**	**02494**
(Address of principal executive offices)	(Zip code)

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

Item 2. Acquisition or Disposition of Assets.

As of May 14, 2002, pursuant to an Asset Purchase Agreement entered into as of May 2, 2002 (the "Asset Purchase Agreement"), by and among Designs, Inc. ("Designs" or the "Company") and Casual Male Corp. and certain subsidiaries ("Casual Male"), the Company completed the acquisition of substantially all of the assets of Casual Male for a purchase price of approximately $170 million, plus assumption of certain operating liabilities. The Company was selected as the highest and best bidder at a bankruptcy court ordered auction commencing on May 1, 2002 and concluding on May 2, 2002. The U.S. Bankruptcy Court for the Southern District of New York subsequently granted its approval for the acquisition of Casual Male by Designs on May 7, 2002.

The Casual Male acquisition, along with the payment of certain related fees and expenses, was completed with funds provided by: (i) approximately $46.0 million in term loan and revolving indebtedness under a senior secured credit facility, (ii) proceeds from the private placement of $24.5 million principal amount of 12% senior subordinated notes due 2007 and $11 million principal amount of 5% senior subordinated notes due 2007, and the issuance of warrants to purchase common stock of the Company, (iii) approximately $82.5 million of proceeds from the private placement of approximately 1.4 million shares of common stock and shares of newly designated convertible preferred stock (equivalent to approximately 18.0 million shares of common stock, conditioned upon shareholder approval for conversion) of the Company, and (iv) the assumption of a mortgage note in a principal amount of approximately $12.2 million.

The convertibility of such preferred stock, and the exercisability of certain such warrants, is subject to approval by the stockholders of the Company. The newly issued common stock and the common stock issuable upon conversion of such convertible preferred stock and exercise of such warrants will be subject to certain rights to require registration under the Securities Act of 1933, as amended.

The foregoing description is qualified in its entirety by reference to the full text of the exhibits filed herewith and incorporated by this reference.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) *Financial Statements of Business Acquired*.

To be filed by amendment within the time period specified in Item 7(a)(4) of Form 8-K.

(b) *Pro Forma Financial Information*.

To be filed by amendment within the time period specified in Item 7(a)(4) of Form 8-K.

(c) *Exhibits*.

Exhibit No.	Description
3.1	Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights of Series B Convertible Preferred Stock dated May 14, 2002.
10.1	Asset Purchase Agreement entered into as of May 2, 2002, by and among the Company and Casual Male Corp. and certain subsidiaries.
10.2	Amended and Restated Note Agreement, dated as of April 26, 2002, and amended and restated as of May 14, 2002, among the Company, certain subsidiaries of the Company and the purchasers identified therein.
10.3	Form of 12% Senior Subordinated Note due 2007.
10.4	Form of 5% Subordinated Note due April 26, 2007.
10.5	Form of Warrant to Purchase Shares of Common Stock (aggregating 787,500 shares).
10.6	Form of Warrant to Purchase Shares of Common Stock (aggregating 927,500 shares, subject to shareholder approval).
10.7	Form of Warrant to Purchase Shares of Common Stock (aggregating 1,176,471 shares, subject to shareholder approval).
10.8	Registration Rights Agreement entered into as of April 26, 2002, by and between the Company and the persons identified therein.
99.1	Press Release of Designs, Inc. dated May 15, 2002.

SIGNATURE

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 hereunto duly authorized.

Date: May 23, 2002

Designs, Inc.

By: /s/ DENNIS R. HERNREICH
Name: Dennis R. Hernreich
Title: Senior Vice President and
Chief Financial Officer

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: May 14, 2002 | Commission File Number 0-15898

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

Delaware	**04-2623104**
(State or other jurisdiction of incorporation of principal executive offices)	*(IRS Employer Identification No.)*
555 Turnpike Street, Canton, MA	**02021**
(Address of principal executive offices)	*(Zip Code)*

(781) 828-9300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value
(Title of each Class)

This report on Form 8-K/A amends and supplements the report on Form 8-K filed by Designs, Inc. (the "Company") on May 23, 2002 in connection with the Company's acquisition on May 14, 2002 of substantially all the assets of Casual Male Corp. and certain of its subsidiaries ("Casual Male"), to include the financial information required by Item 7(a) and Item 7(b).

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements of Business Acquired

The following historical audited consolidated financial statements of Casual Male Corp. and notes thereto are included herein:

Independent Auditors' Report
Consolidated Balance Sheets as of February 2, 2002 and February 3, 2001
Consolidated Statements of Operations for the years ended February 2, 2002, February 3, 2001 and January 29, 2000
Consolidated Statements of Stockholders' Equity (Deficit) for the years ended February 2, 2002, February 3, 2001 and January 29, 2000
Consolidated Statements of Cash Flows for the years ended February 2, 2002, February 3, 2001 and January 29, 2000
Notes to Consolidated Financial Statements

Independent Auditors' Report

The Board of Directors and Stockholders
Casual Male Corp., Debtor-in-Possession:

We have audited the accompanying consolidated balance sheets of Casual Male Corp. and subsidiaries, Debtor-in-Possession, as of February 2, 2002 and February 3, 2001, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the 52 week period ended February 2, 2002, the 53 week period ended February 3, 2001, and the 52 week period ended January 29, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Casual Male Corp. and subsidiaries as of February 2, 2002 and February 3, 2001, and the results of their operations and their cash flows for the 52 week period ended February 2, 2002, the 53 week period ended February 3, 2001, and the 52 week period ended January 29, 2000, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, the Company filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code on May 18, 2001. As of May 15, 2002, most of the assets of the Company have been sold. The Company will continue operations primarily to liquidate any remaining assets and settle the Company's remaining liabilities, including liabilities subject to compromise, to the extent possible. After the settlements have occurred, it is expected that the Company will cease operations.

Boston, Massachusetts
May 18, 2002

/s/ KPMG LLP

CASUAL MALE CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

Consolidated Balance Sheets

February 2, 2002 and February 3, 2001

Assets	2002	2001
Current assets:		
Cash and cash equivalents	$ 5,056,039	5,619,983
Accounts receivable:		
Trade, net	1,330,020	2,453,460
Other	4,126,700	3,112,402
	5,456,720	5,565,862
Merchandise inventories	—	136,200,960
Prepaid expenses	655,104	3,902,692
Net assets held for sale (notes 1(q) and 4)	113,902,849	—
Current assets of discontinued operations (note 2)	—	13,462,139
Total current assets	125,070,712	164,751,636
Property, plant, and equipment, at cost:		
Land and buildings	—	20,041,636
Furniture, fixtures, and equipment	—	56,464,492
Leasehold improvements	—	36,664,206
	—	113,170,334
Less accumulated depreciation and amortization	—	47,778,229
Net property, plant, and equipment	—	65,392,105
Other assets, at cost, less accumulated amortization	20,557	14,939,857
	$ 125,091,269	245,083,598
Liabilities and Stockholders' Deficit		
Liabilities not subject to compromise:		
Current liabilities:		
Current portion of long-term debt (note 4)	$ 65,640,543	12,328,921
Accounts payable	653,531	64,459,990
Accrued expenses	7,432,138	15,216,423
Total current liabilities	73,726,212	92,005,334
Other liabilities	—	1,926,660
Long-term debt, net of current portion (note 4)	—	93,788,679
Convertible subordinated debt (note 4)	—	70,300,000
Liabilities subject to compromise (note 1(r)):	148,243,643	—
Total liabilities	221,969,855	258,020,673
Stockholders' deficit:		
Common stock, par value $0.50 per share. Authorized 40,000,000 shares; issued and outstanding 14,208,260 shares in 2002 and 14,069,185 in 2001	7,104,131	7,034,593
Additional paid-in capital	121,533,712	120,902,446
Accumulated deficit	(225,516,429)	(140,874,114)
Total stockholders' deficit	(96,878,586)	(12,937,075)
	$ 125,091,269	245,083,598

See accompanying notes to consolidated financial statements.

CASUAL MALE CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

Consolidated Statements of Operations

Years ended February 2, 2002, February 3, 2001, and January 29, 2000

	2002	2001 (53 Weeks)	2000
Net sales	$ 430,807,393	473,333,156	411,706,993
Cost of sales	246,468,480	247,199,104	212,866,012
Gross profit	184,338,913	226,134,052	198,840,981
Selling, administrative, and general expenses	190,585,217	188,017,371	164,488,528
Reorganization costs (note 1(a))	37,973,531	—	—
Impairment of Work 'n Gear assets (note 1(a))	12,292,462	—	—
Depreciation and amortization	12,632,574	11,973,599	12,012,716
Operating income (loss)	(69,144,871)	26,143,082	22,339,737
Interest expense, net	13,671,562	11,971,995	10,075,227
Earnings (loss) from continuing operations before income taxes	(82,816,433)	14,171,087	12,264,510
Income tax expense (note 5)	303,500	57,216,000	4,047,000
Earnings (loss) from continuing operations	(83,119,933)	(43,044,913)	8,217,510
Discontinued operations (note 2):			
Earnings (loss) from discontinued operations, net of income tax expense of $0, $574,000, and $322,000 in fiscal 2002, 2001 and 2000, respectively	—	1,594,940	655,100
Loss on disposal of discontinued operations	(1,309,264)	(60,405,902)	—
Earnings (loss) from discontinued operations	(1,309,264)	(58,810,962)	655,100
Net earnings (loss)	$ (84,429,197)	(101,855,875)	8,872,610
Earnings (loss) per common share:			
Basic:			
Continuing operations	$ (5.85)	(3.06)	0.58
Discontinued operations	(0.09)	(4.18)	0.05
Net earnings (loss) per common share, basic	$ (5.94)	(7.24)	0.63
Diluted:			
Continuing operations	$ (5.85)	(3.06)	0.57
Discontinued operations	(0.09)	(4.18)	0.05
Net earnings (loss) per common share, diluted	$ (5.94)	(7.24)	0.62
Number of shares used to compute earnings (loss) per common share:			
Basic	14,205,976	14,067,998	14,065,734
Diluted	14,205,976	14,067,998	14,373,272

See accompanying notes to consolidated financial statements.

CASUAL MALE CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

Consolidated Statements of Stockholders' Equity (Deficit)

Years ended February 2, 2002, February 3, 2001, and January 29, 2000

	Common stock		Additional paid-in capital	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount			
Balance, January 30, 1999	14,064,526	$ 7,032,263	117,353,846	(46,202,794)	78,183,315
Net earnings	—	—	—	8,872,610	8,872,610
Warrants issued on subordinated debt	—	—	3,300,000	—	3,300,000
Exercise of stock options	3,000	1,500	212,814	—	214,314
Dividends paid ($0.06 per share)	—	—	—	(843,949)	(843,949)
Balance, January 29, 2000	14,067,526	7,033,763	120,866,660	(38,174,133)	89,726,290
Net loss	—	—	—	(101,855,875)	(101,855,875)
Exercise of stock options	1,659	830	35,786	—	36,616
Dividends paid ($0.06 per share)	—	—	—	(844,106)	(844,106)
Balance, February 3, 2001	14,069,185	7,034,593	120,902,446	(140,874,114)	(12,937,075)
Net loss	—	—	—	(84,429,197)	(84,429,197)
Exercise of stock options	139,075	69,538	631,266	—	700,804
Dividends paid ($0.015 per share)	—	—	—	(213,118)	(213,118)
Balance, February 2, 2002	14,208,260	$ 7,104,131	121,533,712	(225,516,429)	(96,878,586)

See accompanying notes to consolidated financial statements.

CASUAL MALE CORP. AND SUBSIDIARIES

(Debtor-in-Possession)

Consolidated Statements of Cash Flows

Years ended February 2, 2002, February 3, 2001, and January 29, 2000

	2002	2001
Cash flows from operating activities:		
Earnings (loss) from continuing operations	$ (83,119,933)	(43,044,913)
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization:		
Fixed assets	11,389,975	9,973,289
Deferred charges, intangible assets, warrants and deferred financing costs	2,578,599	3,164,310
Reorganization items	37,973,531	—
Impairment of Work 'n Gear assets	12,292,462	—
Deferred income taxes, net	—	56,347,000
Change in:		
Accounts receivable	(1,509,297)	270,384
Merchandise inventories	35,023,883	(16,878,762)
Prepaid expenses	(814,340)	84,462
Other assets	1,053,790	(3,009,735)
Accounts payable	15,248,424	1,194,531
Accrued expenses	(3,970,933)	3,163,817
Income taxes payable/receivable	—	416,698
Other liabilities	(968,173)	(428,216)
Net cash provided by operating activities before reorganization items	25,177,988	11,252,865
Operating cash flows from reorganization items:		
Professional fees paid	(12,278,948)	—
Net cash used by reorganization items	(12,278,948)	—
Net cash provided by operating activities	12,899,040	11,252,865
Cash flows from investing activities:		
Capital expenditures for:		
Property, plant, and equipment	(6,495,606)	(15,424,938)
Net cash paid in acquisition of Repp Ltd. Big & Tall businesses	—	—
Proceeds received from sale of footwear business	6,000,000	53,007,456
Net cash provided by (used in) investing activities	(495,606)	37,582,518
Cash flows from financing activities:		
Repayment of senior debt	—	—
Proceeds from revolving credit facilities	—	—
Repayment of revolving credit facilities	(30,993,655)	(1,497,749)
Proceeds from (repayment of) senior subordinated debt	—	(53,000)
Proceeds from term loans	15,000,000	—
Repayment of chattel loans	(2,675,526)	(9,292,630)
Repayment of mortgage payable	(733,348)	(670,456)
(Payment) reduction of mortgage escrow, net	4,190	71,145
Proceeds from exercise of stock options	700,804	36,616
Payment of dividends	(213,118)	(844,106)
Net cash provided by (used in) financing activities	(18,910,653)	(12,250,180)
Net cash provided by (used in) discontinued operations	6,152,875	(36,295,685)
Net increase (decrease) in cash and cash equivalents	(354,344)	289,518
Cash and cash equivalents at beginning of year	5,619,983	5,330,465
Cash and cash equivalents at end of year	$ 5,265,639	5,619,983
less: Cash included in Assets held for sale	(209,600)	
Cash and cash equivalents available at end of year	$ 5,056,039	

See accompanying notes to consolidated financial statements.

(1) Nature of Operations and Summary of Significant Accounting Policies

(a) Nature of Operations

Casual Male Corp. and subsidiaries (the Company), formerly J. Baker, Inc., are primarily engaged in the retail sale of apparel. As of February 2, 2002, the Company's Casual Male Big & Tall, Repp Big & Tall and Work 'n Gear businesses operated a total of 529 stores throughout the United States. The Company operated the 431 store chain of Casual Male Big & Tall stores (including 63 outlet stores) and the 42 store chain of Repp Big & Tall stores, selling fashion, casual and dress clothing, and footwear to the big and tall man. In the first quarter of fiscal 2003, all of the Repp Big & Tall stores were converted to Casual Male Big & Tall stores. The Company also operated the Work 'n Gear chain, comprised of 56 stores that sell utility workwear, healthcare apparel, and custom uniforms for industry and service businesses. As discussed below, the Company decided to close 49 stores during the fourth quarter of 2002, and at February 2, 2002, a liquidator was conducting closing sales at these 49 additional stores. The Company also operated catalog, e-commerce and other direct selling and marketing businesses, as well as security businesses under the names of LPI and Securex. Through February 3, 2001, the Company also operated self-service licensed footwear departments in discount department stores (see note 2).

Chapter 11 Bankruptcy Filing

On May 18, 2001 (the Filing Date), Casual Male Corp. and 15 of its direct and indirect subsidiaries (collectively, the Debtors) filed voluntary petitions to reorganize their businesses under Chapter 11 of the United States Bankruptcy Code (Chapter 11) in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). JBAK Holding and JBAK Realty, a direct and indirect subsidiary of Casual Male Corp., respectively, did not file petitions to reorganize under Chapter 11 (the Chapter 11 Case). The Debtors continue to operate their businesses and manage their properties as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code, subject to the jurisdiction of the Bankruptcy Court. On May 24, 2001, the United States Trustee for the Southern District of New York appointed an Official Committee of Unsecured Creditors (the Creditors' Committee) pursuant to Section 1102 of the Bankruptcy Code.

As of the Filing Date, actions to collect pre-petition indebtedness are stayed, and other pre-petition contractual obligations may not be enforced against the Company. In addition, the Company may reject executory contracts and lease obligations, and parties affected by these rejections may file claims with the Bankruptcy Court in accordance with the reorganization process. The Company's liabilities at the Filing Date are subject to allowance in the Chapter 11 case and the creditors shall receive the distribution, if any, provided for under one or more plans of reorganization. All unsecured claims are reflected in the accompanying consolidated balance sheet as "Liabilities subject to compromise". The Debtors received approval as of the Filing Date to pay or otherwise honor certain of their pre-petition obligations, including employee wages and related taxes, employee benefits, travel expenses, insurance premiums, utilities and certain customer programs.

The Company filed schedules of assets and liabilities on or about August 1, 2001, which were amended in October 2001. Pursuant to an order of the Bankruptcy Court, the last date for filing claims against the Company as of the Filing Date was established as December 17, 2001.

Under Section 1121(b) of the Bankruptcy Code, a debtor has the exclusive right to file a plan of reorganization during the initial 120 days after the date of the commencement of a Chapter 11 case. On October 10, 2001, the Bankruptcy Court granted an extension of approximately six months. On March 7, 2002, the Bankruptcy Court entered an order extending the Debtors' exclusive time to file a plan of reorganization through August 26, 2002.

During fiscal 2002, the Company made key modifications to its business to enhance profitability. On July 11, 2001, the Company, after consulting with the Creditors' Committee, filed a motion with the Bankruptcy Court requesting authorization to close certain of its locations which no longer contributed to the Company's overall business objectives. The Company requested approval to commence store closing sales at 80 of its locations, consisting of 21 Casual Male Big & Tall stores, 43 Repp Big & Tall stores and 16 outlet stores. On August 22, 2001, the Bankruptcy Court authorized the Company's store closings. Store closing sales commenced at the end of August and all 80 stores were closed as of December 26, 2001.

The Company decided to close an additional 49 stores during the fourth quarter of its fiscal year ended February 2, 2002. Commencing on January 17, 2002, the Company engaged a liquidator to conduct store closing sales at 12 Casual Male Big & Tall stores, 23 Repp Big & Tall stores, and 14 Work 'n Gear stores. The store closing sales ended on or before April 14, 2002. Other stores were closed without the use of a liquidator and all remaining stores operating under the Repp Big & Tall format were converted to stores operating in the Casual Male Big & Tall format during the first quarter of fiscal 2003. As a result of this decision, it was determined that the goodwill associated with the Repp acquisition no longer had value, and the unamortized balance of $6.0 million was entirely written off as of February 2, 2002. See further discussion in note 3.

Additionally, the Company consolidated the catalog and e-commerce operations previously located in its facility in Alpharetta, Georgia into its facility in Canton, Massachusetts. This consolidation allowed the Company to utilize space in the Canton facility made available as a result of the disposal of the footwear business (see note 2). It also eliminated occupancy and related expenses associated with the Alpharetta facility. In order to ensure an efficient transition of the Company's catalog and e-commerce business from Alpharetta to Canton, the Company received authorization from the Bankruptcy Court to establish a retention program that provided economic incentives to its former Alpharetta-based employees to remain with the Company through the transition period. Consolidation activities were concluded by the end of February 2002. The expenses associated with this consolidation, including retention and severance expenses, moving costs and capital costs for improvements to the Canton facility, were $2.4 million, of which $1.2 million was accrued at February 2, 2002.

Reorganization costs during fiscal 2002 are as follows:

		Cost	Utilized – Cash	Utilized – Non-cash	Balance at February 2, 2002
Professional fees	$	5,375,737	(3,954,679)	—	1,421,058
Bank fees		6,523,436	(6,510,188)	—	13,248
Asset write offs for closed stores		9,399,724	—	(9,399,724)	—
Write off of Repp goodwill (note 3)		6,006,072	—	(6,006,072)	—
Lease rejection claims		8,277,285	—	—	8,277,285
Other		2,391,277	(1,814,081)	—	577,196
Total reorganization costs	$	37,973,531	(12,278,948)	(15,405,796)	10,288,787

At February 2, 2002, the Company has accrued $10,288,787 related to reorganization costs. Of that balance, $8,277,285 is lease rejection claims, included in "Liabilities subject to compromise" on the consolidated balance sheet. The remaining $2,011,502 is included in accrued expenses.

Sale of Work 'n Gear Assets

As of March 11, 2002, the Company agreed to sell substantially all of the assets of the Work 'n Gear business to Sandy Point, LLC (Sandy Point). The assets sold include property and equipment at stores; rights to real estate and equipment leases; inventory; and licenses, permits and intellectual property. Sandy Point assumed accounts payable on in-transit inventory, but no other accounts payable arising prior to the closing. The adjusted Purchase Price was $9,750,000. The sale was approved by order of the Bankruptcy Court on April 17, 2002, and closed on May 4, 2002.

The carrying value of the assets being sold was greater than the net proceeds received. Therefore, the Company wrote down the assets to their fair value less costs to sell as of February 2, 2002, recording an impairment charge of $12,292,462. The assets sold are classified under "Net assets held for sale" on the accompanying consolidated balance sheet. See also note 1(q).

Sale of Big & Tall and Security Business Assets

As of May 2, 2002, the Company agreed to sell substantially all of the operating assets of the big and tall and security businesses to Designs, Inc. (Designs). The assets sold include the Company's office and warehouse facility in Canton, Massachusetts; property and equipment both at the office and warehouse facility and at stores; rights to real estate and equipment leases; inventory; licenses, permits and intellectual property; and the Company's loss prevention businesses. Designs did not acquire certain accounts receivable. Designs assumed post-petition accounts payable relating to the businesses acquired, certain employee costs, the mortgage on the Canton facility, and liabilities relating to prepayment penalties under Tranche A and Tranche B of the DIP facility. Designs did not assume the liabilities subject to compromise, or certain other post-petition reorganization related obligations, such as professional fees. See further discussion of the DIP facility in note 4. The Purchase Price was $170,000,000. The sale was approved by order of the Bankruptcy Court on May 7, 2002, and closed effective May 14, 2002.

The carrying value of the assets being sold was less than the net proceeds received. The net assets sold are classified under "Net assets held for sale" on the accompanying consolidated balance sheet. See also note 1(q).

(b) Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in accordance with the American Institute of Certified Public Accountants Statement of Position 90-7 (SOP 90-7), *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*, and accounting principles generally accepted in the United States of America applicable to a going concern, which principles assume that assets will be realized and liabilities will be discharged in the normal course of business. As of May 15, 2002, most of the assets of the Company have been sold. The Company will continue operations primarily to liquidate any remaining assets and settle the Company's remaining liabilities, including liabilities subject to compromise, to the extent possible. After the settlements have occurred, it is expected that the Company will cease operations.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(d) Fiscal Year

The Company's fiscal year ends the Saturday closest to January 31. Fiscal years 2002, 2001, and 2000 ended on February 2, 2002, February 3, 2001, and January 29, 2000, respectively. Fiscal 2002 included 52 weeks, fiscal 2001 included 53 weeks, and fiscal 2000 included 52 weeks. References to years in these financial statements and notes relate to fiscal years rather than calendar years.

(e) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107 (SFAS No. 107), *Disclosures About Fair Value of Financial Instruments*, requires disclosure of the fair value of certain financial instruments. The estimated fair values of the Company's financial instruments as of February 2, 2002 are summarized below.

		Carrying amount	Fair value
DIP revolving credit facility (Tranche A)	$	29,603,169	29,603,169
DIP term loan (Tranche B)		20,000,000	20,000,000
DIP term loan (Tranche C)		15,000,000	15,000,000
Chattel loan		1,037,374	1,037,374
Mortgage note		12,410,527	13,164,835

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable (post-petition), accrued expenses, and short-term borrowings approximate fair value because of the short maturity of these instruments. Discounted cash flows are used to determine the fair value of the mortgage. The fair value of the Company's liabilities subject to compromise are not presently determinable as a result of the Chapter 11 proceedings. At February 2, 2002, the Company has no investments in derivative financial instruments.

(f) Cash and Cash Equivalents

Cash equivalents consist of highly liquid instruments with maturities of three months or less and are stated at cost, which approximates market.

(g) Merchandise Inventories

Except for the direct marketing business, which accounts for its inventory by the average cost method, merchandise inventories, which consist entirely of finished goods, are valued at the lower of cost or market, principally by the retail inventory method.

(h) Depreciation and Amortization of Property, Plant and Equipment and Other Assets

Depreciation and amortization of the Company's property, plant and equipment, and other assets are provided on the straight-line method over the following periods:

Furniture and fixtures	7 years
Machinery and equipment	7 years
Leasehold improvements	10 years
Building, building improvements, and land improvements	40 years
Systems development costs, goodwill, and other intangible assets	3 to 15 years

Maintenance and repairs are charged to expense as incurred. Major renewals or replacements are capitalized. When properties are retired or otherwise disposed of, the asset and related reserve account are relieved and the resulting gain or loss, if any, is credited or charged to operations.

(i) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(j) Goodwill

Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over a period of 15 years. The Company evaluates goodwill for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If the carrying amount of the goodwill exceeds the expected undiscounted future cash flows, the Company records an impairment loss.

As discussed in note 3, the Company's goodwill relating to Repp was written off as an impairment loss during fiscal 2002. At February 2, 2002, the remaining balance of goodwill is $100,000, which relates to an acquisition of a security business in December 2000.

(k) Earnings Per Common Share

Basic Earnings Per Share (EPS) is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to common shareholders by the weighted average number of common shares, after giving effect to all potentially dilutive common shares outstanding during the period. All potentially dilutive securities were excluded from the calculations for fiscal 2002 and 2001 because their effect would be anti-dilutive. The number of total shares excluded from the calculation was 1,899,941 for both fiscal 2002 and fiscal 2001. The common stock issuable under the 7% convertible subordinated notes due 2002 and the convertible debentures were not included in the calculation for fiscal 2000 because their effects would be antidilutive.

Earnings (loss) from continuing operations and shares used to compute earnings (loss) per share, basic and diluted, are reconciled below:

		2002	2001	2000
Earnings (loss) from continuing operations, basic and diluted	$	(83,119,933)	(43,044,913)	8,217,510
Weighted average common shares:				
Basic		14,025,976	14,067,998	14,065,734
Effect of dilutive securities:				
Stock options, warrants, and performance share awards		—	—	307,538
Diluted		14,205,976	14,067,998	14,373,272

(l) Revenue Recognition

The Company recognizes revenue in its retail stores at the time of sale and in its catalog and e-commerce business at the time orders are shipped.

(m) Store Opening and Closing Costs

Store opening costs are expensed as incurred. All costs related to store closings are expensed at the time the decision is reached to close the store.

(n) Advertising Costs

The Company expenses in-store advertising costs as incurred. Direct response advertising costs, which consist of catalog production and postage costs, are deferred and amortized over the period of expected direct marketing revenue, which is less than one year. The amount of deferred direct expense advertising cost was $1,045,132 and $868,820 at February 2, 2002 and February 3, 2001, respectively. Advertising expense was approximately $20.5 million, $18.7 million, and $14.1 million for the years ended February 2, 2002, February 3, 2001, and January 29, 2000, respectively.

(o) Stock Options

SFAS No. 123, *Accounting for Stock-Based Compensation* permits entities to recognize as expense over the vesting period the fair value on the date of grant of all stock-based awards. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in fiscal 1996 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company continues to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

(p) ***Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(q) ***Net Assets Held for Sale***

Net assets held for sale are stated at the lower of net book value or estimated net realizable value. Net assets held for sale, including Work 'n Gear and the big and tall and security businesses, consist of the following at February 2, 2002:

Cash	$	209,600
Inventory		92,603,042
Accounts receivable and deposits		1,408,439
Prepaid expenses		3,693,359
Property, plant and equipment		47,958,154
Other assets		6,612,649
less: Accounts payable and accrued expenses assumed		(26,171,866)
less: Mortgage note assumed		(12,410,528)
Net assets held for sale	$	113,902,849

(r) ***Liabilities Subject to Compromise***

In accordance with SOP 90-7, liabilities subject to compromise are claims reported at amounts based on the Company's books and records, even though such liabilities may not be paid in full. Liabilities subject to compromise consist of the following at February 2, 2002:

Accounts payable	$	56,561,210
Senior subordinated debt (note 4)		10,000,000
7% convertible subordinated notes (note 4)		70,000,000
Convertible debentures (note 4)		300,000
Accrued interest		2,712,840
Lease rejection claims		8,277,285
Other		392,308
Liabilities subject to compromise	$	148,243,643

Additional claims (liabilities subject to compromise) may subsequently arise resulting from rejection of additional executory contracts and non-residential leases, and from the determination by the Bankruptcy Court (or by agreement between the parties involved) of allowed claims for contingencies and other disputed amounts.

(s) ***Reclassifications***

Certain reclassifications have been made to the consolidated financial statements of prior years to conform to the fiscal 2002 presentation.

(t) New Accounting Pronouncements

In accordance with EITF 00-10, *Accounting for Shipping and Handling Fees and Costs*, the Company classifies shipping and handling fees billed to customers as revenue, and shipping and handling costs in cost of sales.

In June 2001, the FASB issued SFAS No. 141, *Business Combinations*, (SFAS No. 141) and SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS No. 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121 and subsequently, SFAS No. 144 after its adoption.

The Company adopted the provisions of SFAS No. 141 as of July 1, 2001, and of SFAS No. 142 on February 3, 2002. Goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 is adopted in full, are not amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized and tested for impairment prior to the full adoption of SFAS No. 142.

Upon adoption of SFAS No. 142, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform with the new classification criteria in SFAS No. 141 for recognition separate from goodwill. If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Impairment is measured as the excess of carrying value over the fair value of an intangible asset with an indefinite life. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

As of the date of adoption of SFAS No. 142, the Company expects to have unamortized goodwill in the amount of $100,000 and unamortized identifiable intangible assets in the amount of $103,251, all of which will be subject to the transition provisions of SFAS No. 142. Based on the sale of substantially all of the Company's assets in May 2002, the impact of adopting the Statements on the Company's financial statements is not expected to be material.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company adopted SFAS No. 144 on February 3, 2002.

(2) Discontinued Operations

Sale of Footwear Operations to Footstar

In November 2000, the Company announced that it had entered into an agreement with an affiliate of Footstar, Inc. (Footstar) to sell substantially all of the assets of its JBI, Inc. and Morse Shoe, Inc. subsidiaries, which are the entities that comprised its footwear segment. Pursuant to the terms of the Asset Purchase Agreement between the Company and Footstar, the Company retained the obligation to operate certain footwear departments in the following stores scheduled to close: (i) all 105 stores operated by Bradlees Stores, Inc., a debtor-in-possession under Chapter 11, which stores closed during February 2001, (ii) 32 stores operated by Ames Department Stores, Inc., which stores closed during March 2001 and (iii) six stores operated by Ann & Hope, Inc., which stores closed during the spring of

2001. On February 3, 2001, the sale of the footwear segment to Footstar was finalized. The sale resulted in a loss from discontinued operations of $1.3 million and $58.8 million for fiscal years 2002 and 2001, respectively. The net loss from the disposal of the footwear segment in 2001 included the book loss on the transaction, the operating loss of the business in fiscal 2001 and other costs directly associated in the decision to divest. Proceeds of the sale to Footstar were $59 million, including $6 million placed in escrow at February 3, 2001. All of the proceeds held in escrow were received in full in the first quarter of fiscal 2002.

The footwear segment is accounted for as a discontinued operation. Accordingly, its net assets have been segregated from continuing operations in the accompanying consolidated balance sheets, and its operating results are segregated and reported as discontinued operations in the accompanying consolidated statements of operations and cash flows, and related notes. For the periods ended February 2, 2002, February 3, 2001, and January 29, 2000, the results of discontinued operations were as follows:

		2002	2001	2000
			(Amounts in thousands)	
Net sales	$	—	303,622	254,350
Earnings before income taxes		—	2,169	977
Loss on disposal of discontinued operations		(1,309)	(60,406)	—
Income tax expense		—	(574)	(322)
Earnings (loss) from discontinued operations	$	(1,309)	(58,811)	655

The Company allocated interest expense to discontinued operations based on debt that was attributed to the footwear segment. The loss on disposal of discontinued operations in fiscal 2001 included interest costs of $6.3 million. Results from discontinued operations in fiscal 2002, 2001, and 2000 included interest costs of $0, $3.8 million, and $6.8 million, respectively.

The assets identified as part of the disposition of the footwear segment are recorded as current and noncurrent assets of discontinued operations; the cash flow of the business is reported as net cash provided by (used in) discontinued operations; and the results of operations of the segment are reported as earnings (loss) from discontinued operations.

There were no remaining assets of discontinued operations as of February 2, 2002. Current assets of discontinued operations as of February 3, 2001 consist of the following:

(Amounts in thousands)		
Current assets:		
Accounts receivable	$	7,371
Amounts held in escrow		6,000
Other		91
Current assets of discontinued operations	$	13,462

Shoe Corporation of America

On February 11, 2000, the Company entered into an agreement to purchase the ongoing assets of Shoe Corporation of America (SCOA) and, on February 29, 2000, the transaction was consummated. The purchase price paid by the Company to acquire the ongoing assets of SCOA was approximately $14 million. As part of this acquisition, the Company acquired the rights to operate 204 licensed footwear departments for moderate department and specialty store chains nationwide. All assets and rights of this division were included in the sale to Footstar.

(3) Acquisition of Repp Ltd. And Repp Ltd. By Mail

On May 23, 1999, the Company acquired substantially all of the assets of the Repp Ltd. Big & Tall and Repp Ltd. By Mail divisions of Edison Brothers Stores, Inc. The Company paid cash, as described below, for the acquisition of 175 United States and Canadian Repp Ltd. Big & Tall retail locations and the Repp Ltd. By Mail catalog business. The Company immediately sold Repp's Canadian operation, 16 stores, to Grafton-Fraser, Inc., a Canadian men's retailer, and commenced the closing of 31 stores in the United States. The Company operated the remaining retail stores in the United States and the Repp Ltd. By Mail catalogs through a new subsidiary, JBI Apparel, Inc., until the business was sold to Designs (see note 1(a)). The transaction was financed primarily through (a) a new $20 million credit facility and a $5 million term loan provided to JBI Apparel, Inc. by BankBoston Retail Finance Inc. and Back Bay Capital Funding LLC, respectively, (both of which were amended on August 30, 1999 through a refinancing), (b) the issuance by JBI Apparel, Inc. of $10 million of senior subordinated notes to a group of investors, which included investment funds affiliated with Donaldson, Lufkin & Jenrette, Inc. (the Investor Group) (see note 4), and (c) the sale of the Canadian operations and the liquidation of the inventories in the 31 closing stores. The net purchase price for the acquired assets, which primarily consisted of inventory and fixed assets for the 128 retail stores in the United States and the Repp Ltd. By Mail catalogs, was $27.0 million. In connection with the $10 million financing provided by the Investor Group, the Company issued 5-year warrants enabling holders to purchase 1,200,000 shares of the Company's common stock at $5.00 per share. See note 4.

The acquisition was accounted for under the purchase method of accounting and, accordingly, the results of operations of Repp Big & Tall are included in the consolidated statements of operations since the date of acquisition.

The net purchase price of $27.0 million was allocated as follows:

Property, plant, and equipment	$	3,000,000
Prepaid expenses		892,775
Merchandise inventories		16,901,370
Goodwill		6,227,835
	$	27,021,980

During fiscal 2001, an additional $0.5 million of goodwill was booked. At February 3, 2001, the unamortized goodwill of $6.7 million was included in other assets and was being amortized on a straight line basis over fifteen years. Accumulated amortization was $718,000 as of February 3, 2001.

At the end of fiscal 2002, the Company decided to either close the remaining Repp stores or convert them to the Casual Male concept in the spring of fiscal 2003. As a result of this decision, it was determined that the goodwill no longer had value, and it was entirely written off as of February 2, 2002. The Company also recorded a $3,865,000 write down of the inventory in the converted Repp stores to reflect a valuation consistent with that of the Casual Male stores. The write off of Repp goodwill has been classified as Reorganization costs, and the write down of Repp inventory has been classified as cost of sales in the accompanying consolidated statements of operations for fiscal 2002.

(4) Debt

Long-term debt, including liabilities subject to compromise, at February 2, 2002 and February 3, 2001 was comprised of:

		2002	2001
Revolving credit facility	$	—	60,596,824
Term loan (Tranche B)		—	20,000,000
DIP revolving credit facility (Tranche A)		29,603,169	—
DIP term loan (Tranche B)		20,000,000	—
DIP term loan (Tranche C)		15,000,000	—
Chattel loan		1,037,374	3,712,900
Mortgage note (interest rate of 9.0%)		12,410,528	13,143,876
13% senior subordinated debt		10,000,000	8,664,000
7% convertible subordinated notes		70,000,000	70,000,000
Convertible debentures		300,000	300,000
	$	158,351,071	176,417,600

The 13% senior subordinated debt, 7% convertible subordinated notes, and convertible debentures are all classified as "Liabilities subject to compromise" on the consolidated balance sheet at February 2, 2002. The mortgage note is classified as a liability to be assumed by Designs under "Net assets held for sale" on the consolidated balance sheet at February 2, 2002.

The balance of long-term debt at February 2, 2002, other than liabilities subject to compromise and net assets held for sale, is $65,640,543. This balance is classified as current portion of long-term debt on the accompanying consolidated balance sheet, and was fully repaid in May 2002 in conjunction with the sale to Designs.

Revolver, Term Loan and Chattel Loan

Effective February 3, 2001, the Company established a total of $130 million in bank financing arrangements, comprised of a $110 million revolving credit facility and a $20 million term loan. These two facilities, each of which would have matured in January 2004, amended and restated the $185 million previously existing bank credit facility which would have otherwise expired in May 2002.

The $110 million revolving line of credit (the Revolver) was provided by a group of lenders led by Fleet Retail Finance, Inc. The $20 million term loan (the Term Loan) was provided by Back Bay Capital Funding LLC. Borrowings under the Term Loan bore interest at 17% per year until December 15, 2002 and 16.5% thereafter.

Upon commencement of the Chapter 11 Case, the Debtors filed a motion seeking the authority of the Bankruptcy Court to enter into a debtor-in-possession revolving credit arrangement (Tranche A) with a group of lenders led by Fleet Retail Finance Inc., and Tranche B and C term loans with a group of lenders led by Back Bay Capital Funding LLC (collectively, the DIP Facility). On May 18, 2001, the Bankruptcy Court approved the DIP Facility on an interim basis pursuant to Section 364(c) of the Bankruptcy Code, and on July 18, 2001, approved the DIP Facility on a final basis. The DIP Facility superseded and replaced the Company's $130 million in bank financing arrangements comprised of the Revolver and the Term Loan.

The DIP Facility provides the Debtors with a $100 million revolving credit facility (the DIP Revolver), which facility contains a $15.0 million sub-limit for issuances of letters of credit, for the Debtors' general working capital needs and for certain capital expenditures. Aggregate borrowings under the DIP Revolver are limited to an amount determined by a formula based on various percentages of eligible inventory and accounts receivable. Borrowings under the DIP Revolver bear interest at variable rates, and bore a weighted average interest rate of 5.93% in fiscal 2002. As of February 2, 2002, the Company had aggregate borrowings outstanding under the DIP Revolver totaling $30.4 million, including $0.8 million of the letters of credit.

The Tranche B term loan provides $20 million to be applied solely towards the retirement of the Revolver and the Term Loan. The unpaid balance of the Tranche B term loan bears interest at a fixed rate of 17.5% per annum (of

which 15.5% is payable monthly in arrears and the remaining 2% may be paid monthly or paid-in-kind, at the option of the Debtors).

The Tranche C term loan provides $15 million to the Debtors, the proceeds of which must be applied solely towards the retirement of the Revolver and the Term Loan and for the Debtors' working capital needs. The unpaid balance of the Tranche C term loan bears interest at a fixed rate of 22% per annum (of which 19% is payable monthly in arrears and the remaining 3% may be paid monthly or paid-in-kind, at the option of the Debtors).

The DIP Facility is secured by a first priority lien on, and security interest in, substantially all of the Debtors' assets except equipment as to which Fleet Leasing Inc.'s lien has priority and property subject to other permitted liens (as defined in the DIP Facility), in which case the lenders have a perfected junior lien. The DIP Facility has debt covenants. At February 2, 2002, the Debtors were in violation of certain of these covenants. As noted above, the DIP facility was fully paid in May 2002 in conjunction with the transaction with Designs.

At February 2, 2002 the Company had $1.0 million remaining of its $9 million chattel loan which was provided by Fleet Leasing Inc. (the Chattel Loan). The Chattel Loan was payable in equal monthly installments of principal and interest, bore interest at 10.35%, and was paid off upon its maturity in May 2002.

Mortgage Note

On December 30, 1996, JBAK Canton Realty, Inc. (JBAK Realty), a wholly owned subsidiary of JBAK Holding, Inc. (JBAK Holding) and an indirect, wholly owned subsidiary of the Company, obtained a $15.5 million mortgage loan from The Chase Manhattan Bank (the Mortgage Loan) secured by the real estate, buildings, and other improvements located at 555 Turnpike Street, Canton, Massachusetts (the Canton Property) owned by JBAK Realty. JBAK Realty leases the Canton Property to JBI, Inc. (JBI), a wholly owned subsidiary of the Company. Neither JBAK Holding nor JBAK Realty have agreed to pay or make their assets available to pay creditors of the Company or of JBI. Neither the Company nor JBI have agreed to make their assets available to pay creditors of JBAK Holding or of JBAK Realty. This loan is being repaid in equal monthly payments of principal and interest over 15 years, and bears interest at 9.0%. As of February 2, 2002, the balance due was $12.4 million. When the Company sold certain assets to Designs in May 2002, the Canton Property was sold to Designs and Designs assumed obligations under the mortgage, subject to the consent of the lenders.

Senior Subordinated Debt

In May 1999, to facilitate the purchase of the Repp Ltd. and Repp Ltd. By Mail businesses (see note 3), a group of investors, which included investment funds affiliated with Donaldson, Lufkin and Jenrette, Inc. provided $10 million to the Company through the issuance of 13% Senior Subordinated Notes by JBI Apparel, Inc. Detachable warrants were issued in connection with the 13% Senior Subordinated Notes, which enable the holders to purchase 1,200,000 shares of Casual Male Corp. common stock at $5.00 per share. The value of the detachable warrants was recorded as additional paid-in capital in stockholders' equity (deficit), and was amortized using the effective interest method. The amount of the 13% Senior Subordinated Notes at February 3, 2001 had been reduced by $1.3 million, the unamortized balance of the $3.3 million value assigned to the detachable warrants. As of February 2, 2002, the balance assigned to the warrants had been fully amortized. The 13% Senior Subordinated Notes matured on December 31, 2001, and the warrants expire on May 21, 2004. The debt has not been paid, and the balance of $10,000,000 is included in "Liabilities subject to compromise" on the consolidated balance sheet.

Convertible Subordinated Debt

In June 1992, Casual Male Corp. issued $70 million of 7% convertible subordinated notes due June 2002. The notes are convertible into common stock at a conversion price of $16.125 per share, subject to adjustment in certain events.

The convertible debentures began accruing interest on January 15, 1997 at a rate of 8% and no principal was payable until January 15, 2002. The debt is subject, under certain circumstances, to mandatory conversion. Approximately 6,500 shares of Casual Male common stock are reserved for any future conversions of the convertible debentures.

Neither the 7% convertible subordinated notes nor the convertible debentures have been paid, and the balances of $70,000,000 on the notes and $300,000 on the debentures are included in "Liabilities subject to compromise" on the consolidated balance sheet.

(5) Taxes on Earnings

Income tax expense attributable to earnings (loss) from continuing operations consists of:

		Current	Deferred	Total
Year ended February 2, 2002:				
Federal	$	—	—	—
State and city		303,500	—	303,500
	$	303,500	—	303,500
Year ended February 3, 2001:				
Federal	$	354,135	55,992,407	56,346,542
State and city		869,458	—	869,458
	$	1,223,593	55,992,407	57,216,000
Year ended January 29, 2000:				
Federal	$	315,965	3,510,035	3,826,000
State and city		221,000	—	221,000
	$	536,965	3,510,035	4,047,000

Income tax expense (benefit) attributable to earnings (loss) from continuing operations differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax earnings (loss) from continuing operations as a result of the following:

		2002	2001	2000
Computed “expected” tax expense (benefit)	$	(28,986,000)	4,960,000	4,293,000
State income taxes, net of federal income tax benefit		197,500	565,000	143,000
Adjustment to valuation allowance for deferred tax assets		29,111,000	51,697,000	(390,000)
Other		(19,000)	(6,000)	1,000
	$	303,500	57,216,000	4,047,000

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at February 2, 2002 and February 3, 2001 are presented below:

		2002	2001
Deferred tax assets:			
Accounts receivable	$	280,000	88,000
Inventory		284,000	556,000
Intangible assets		3,647,000	4,018,000
Other liabilities		4,917,000	—
Nondeductible accruals and reserves		11,185,000	1,016,000
Operating loss and credit carryforwards		114,114,000	96,428,000
Total gross deferred tax assets		134,427,000	102,106,000
Less valuation allowance		(134,005,000)	(100,070,000)
Net deferred tax asset		422,000	2,036,000
Deferred tax liabilities:			
Property, plant, and equipment		(27,000)	(1,682,000)
Intangible assets		(395,000)	(354,000)
Total gross deferred tax liabilities		(422,000)	(2,036,000)
Net deferred tax asset	$	—	—

At February 2, 2002, the Company has net operating loss carryforwards and general business credit carryforwards for federal income tax purposes of approximately $273.0 million and $1.3 million, respectively, which expire in years ending February 2003 through February 2022. The Company also has minimum tax credit carryforwards of approximately $4.2 million available to reduce future regular income taxes, if any, over an indefinite period. Such carryforwards are defined herein as “NOLs.”

SFAS No. 109, *Accounting for Income Taxes*, requires that the tax benefit of such NOLs be recorded for financial reporting purposes as an asset to the extent that the Company assesses the utilization of such NOLs to be “more likely than not”. At February 3, 2001, the Company increased its valuation allowance to fully reserve its net deferred tax asset. At February 2, 2002, the Company increased its valuation allowance by $33,935,000 in order to continue to fully reserve against its net deferred tax asset. As of February 2, 2002, the Company has established a valuation allowance against its deferred tax assets of $134,005,000, which has been charged against income tax expense.

The Company considers its changing financial circumstances, and the related risks, in assessing whether it is more likely than not that some portion or all of the NOLs will be realized. In considering the likelihood of realizing the value of the NOLs, the Company is required to consider the likelihood of the generation of future taxable income during the periods in which the NOLs may be utilized. In addition, the Company considers Section 382 of the Internal Revenue Code, which serves to limit a taxpayer’s ability to utilize NOLs as a result of changes in stock ownership of the Company over a three year period. In the year ended February 3, 2001, the Company disposed of its footwear business, and in May 2001 the Company filed a petition to reorganize its business under Chapter 11. As of February 3, 2001, the possible limitations under Section 382 caused management to conclude that none of the Company’s deferred tax assets were more likely than not to be realized.

As of May 2002, substantially all of the assets of the Company have been sold. The Company’s financial circumstances, including the fact that the sale of the Company’s assets results in the NOLs remaining with the Company, have caused management to conclude that none of the Company’s deferred tax assets are more likely than not to be realized. The Company therefore increased the valuation allowance to fully reserve against its net deferred tax asset as of February 2, 2002.

(6) Pension and Profit Sharing Plans

The Company has a noncontributory pension plan (the Pension Plan), which covers substantially all employees and is administered by Trustees who are officers of the Company. In March 1997, the board of directors of the Company approved an amendment to the Pension Plan, which resulted in freezing all future benefits under the plan as of May 3, 1997. The following table sets forth the Pension Plan's funded status at February 2, 2002 and February 3, 2001:

		2002	2001
Change in benefit obligation:			
Balance at beginning of year	$	15,881,000	14,629,000
Benefits and expenses paid		(710,000)	(933,000)
Service and interest costs		1,134,000	1,108,000
Actuarial loss		111,000	1,077,000
Balance at end of year		16,416,000	15,881,000
Change in fair value of plan assets:			
Balance at beginning of year		24,026,000	23,050,000
Actual return on plan assets		(1,813,000)	1,909,000
Benefits and expenses paid		(710,000)	(933,000)
Balance at end of year		21,503,000	24,026,000
Plan assets in excess of benefit obligations		5,087,000	8,145,000
Unrecognized net loss (gain)		27,000	(3,902,000)
Prepaid pension cost	$	5,114,000	4,243,000

Assumptions used to develop the Plans' funded status were a discount rate of 7.25% and an increase in compensation level of 4.0%. Plan assets of the Pension Plan consist primarily equity securities, U.S. government obligations, mutual funds, and insurance contracts.

Net pension benefit for the years ended February 2, 2002, February 3, 2001, and January 29, 2000 include the following components:

		2002	2001	2000
Service cost earned during the year	$	—	—	27,000
Interest cost on projected benefit obligation		1,134,000	1,107,000	1,098,000
Expected return on plan assets		(1,999,000)	(1,802,000)	(1,599,000)
Net gain recognition		(6,000)	(14,000)	—
Net pension benefit	$	(871,000)	(709,000)	(474,000)

Assumptions used to develop the net periodic pension cost were a discount rate of 7.75%, expected long-term return on assets of 9% and an increase in compensation levels of 4.0%.

In December 1993, the board of directors of the Company established a Supplemental Retirement plan (the Supplemental Plan) to provide benefits attributable to compensation in excess of $160,000 but less than $267,326. In December 1998, the board of directors of the Company approved an amendment to the Supplemental Plan, which resulted in the freezing of all future benefits under the Plan as of December 31, 1998. The following table sets forth the Supplemental Plan's funded status at February 2, 2002 and February 3, 2001:

		2002	2001
Change in benefit obligation:			
Balance at beginning of year	$	333,000	286,000
Benefits and expenses paid		(2,000)	(2,000)
Service and interest costs		24,000	22,000
Actuarial loss		4,000	27,000
Balance at end of year		359,000	333,000
Change in fair value of plan assets:			
Balance at beginning of year		—	—
Employer contributions		2,000	2,000
Benefits and expenses paid		(2,000)	(2,000)
Balance at end of year		—	—

		2002	2001
Benefit obligation in excess of plan assets		(359,000)	(333,000)
Unrecognized net gain		(136,000)	(148,000)
Accrued pension cost	$	(495,000)	(481,000)

In January 1992, the Company implemented a qualified 401(k) profit sharing plan available to eligible full-time employees. Under the 401(k) plan, the Company matches 50% of the qualified employee's contribution up to 6% of the employee's salary. The total cost of the matching contribution was $861,000, $1,149,000, and $989,000 for the years ended February 2, 2002, February 3, 2001, and January 29, 2000, respectively.

The Company has established incentive bonus plans for certain executives and employees. The bonus calculations are generally based on achievement of certain profit levels, as defined in the plans. For the years ended February 2, 2002 and February 3, 2001, there was no bonus provided under the plans. For the year ended January 29, 2000, $1.1 million was provided under the bonus plans.

The Company does not provide post-retirement benefits, other than pensions as defined under SFAS No. 106.

(7) Stock Options, Performance Share Awards, and Restricted Stock Awards

The Company has options outstanding under the Amended and Restated 1985 Stock Option Plan, the 1992 Directors' Stock Option Plan and the 1994 Equity Incentive Plan (the Stock Option Plans). In addition, the Company has granted options which are not part of any Stock Option Plan.

The Amended and Restated 1985 Stock Option Plan provided for the issuance of incentive and nonqualified stock options to officers and employees at an option price of not less than 100% of the fair market value of a share on the date of grant. Under this plan, no shares of common stock are available for grant at February 3, 2001, as no options could be granted thereunder after June 1995.

In fiscal 1995, the Company established the 1994 Equity Incentive Plan, which provides for the issuance of one million shares of common stock to officers and employees in the form of stock options (both incentive options and nonqualified options), grants of restricted stock, grants of performance shares and unrestricted grants of stock.

Options granted under the Amended and Restated 1985 Stock Option Plan and the 1994 Equity Incentive Plan generally become exercisable either ratably over four years or as otherwise determined by the board of directors, and generally expire seven to ten years from date of grant.

The 1992 Directors' Stock Option Plan provides for the automatic grant of 2,500 shares of the Company's common stock upon a director's initial election to the board of directors and at the close of business on the fifth business day following the Company's annual meeting of stockholders. Options under the Directors' Plan are granted at a price equal to the closing price of the Company's common stock on the date of grant. Options granted under the 1992 Directors' Plan are exercisable in full upon grant and expire ten years from date of grant.

The Company applied APB Opinion No. 25 and related interpretations in accounting for its stock options. Accordingly, $7,813, $29,232, and $199,219 of compensation cost has been recognized for stock options in the Company's results of operations in fiscal 2002, fiscal 2001, and fiscal 2000, respectively. Had the Company recorded a charge for the fair value of options granted consistent with SFAS No. 123, net earnings and earnings per common share would have decreased by $1,112,000 and $0.08 in fiscal 2002, $1,630,000 and $0.11 in fiscal 2001, and $1,827,000 and $0.13 in fiscal 2000, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options pricing model, with the following weighted average assumptions used for grants in fiscal 2001 and 2000. No options were granted in fiscal 2002.

	2001	**2000**
Risk-free interest rate	4.7%	6.9%
Expected option lives	7.7 years	7.7 years
Expected volatility	69.2%	70.0%
Expected dividend yield	1.1%	1.0%

The effect of applying SFAS No. 123 is not representative of the pro forma effect on net earnings in future years because it does not take into consideration pro forma compensation expense related to grants made prior to fiscal 1996.

Data with respect to stock options for fiscal 2002, 2001, and 2000 is as follows:

	2002		2001		2000	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	1,899,941	$ 7.24	1,565,497	$ 7.58	1,249,840	$ 8.23
Granted	—	—	476,400	6.18	381,456	5.33
Exercised	(139,075)	4.98	(850)	4.17	(3,000)	5.03
Canceled	(390,630)	6.64	(141,106)	7.42	(62,799)	10.24
Options outstanding at end of year	1,370,236	$ 7.28	1,899,941	$ 7.24	1,565,497	$ 7.58
Options exercisable at end of year	944,901		1,024,900		769,472	
Weighted average fair value of options granted during the year		$ —		$ 6.18		$ 5.33

The following table sets forth a summary of the stock options outstanding at February 2, 2002:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding	Weighted average remaining years of contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 1.00 – 3.98	159,250	6.5	$ 2.68	110,825	$ 2.22
4.00 – 9.75	1,108,736	6.1	7.31	741,326	7.85
11.31 – 21.75	102,250	4.4	14.10	92,750	14.33
1.00 – 21.75	1,370,236	6.0	$ 7.28	944,901	$ 7.43

During fiscal 1997 and fiscal 1998, the Company granted Performance Share Awards, which entitled certain officers to shares of the Company's common stock in fiscal 1999 if the price of the common stock attained a "Target Price" (the average closing price of the Company's common stock for certain defined periods) between $10.00 and $15.00. In fiscal 1999, the Company granted 21,750 shares of the Company's common stock to eligible officers.

During fiscal 1999, the Company granted certain officers stock price performance based restricted stock awards, pursuant to which the officers purchased, in the aggregate, 100,000 shares of the Company's common stock at a purchase price of $10.18 per share. Each of such officers executed a promissory note with the Company as consideration for the aggregate purchase price. The remaining principal and interest obligations under each note were to be forgiven in their entirety on July 8, 2003 provided the respective officer remains employed by the Company at such time. During fiscal 2002, the Board approved an amendment to the notes that would cause them to be forgiven under certain circumstances, including upon a change in control. At February 2, 2002, the notes are included in assets held for sale, and they were sold to Designs.

(8) Commitments and Contingent Liabilities

Leases

The Company leases its retail stores, computers, vehicles, and certain of its office facilities.

The Company remains liable under certain leases and lease guaranties for premises previously leased by the Company for the operation of Parade of Shoes and Fayva footwear stores (the Excess Property Leases). The total liability under the Excess Property Leases is approximately $10.1 million as of February 2, 2002. The Company has reduced its estimated liability to zero by assigning or subleasing substantially all of the Excess Property Leases to unaffiliated third parties.

At February 2, 2002, minimum rental commitments under operating leases are as follows:

		Net minimum rentals	Minimum sub-rentals
		(In thousands)	
Fiscal year ending January:			
2003	$	26,210	69
2004		19,651	61
2005		13,148	61
2006		8,716	46
2007		4,624	—
Thereafter		5,160	—
	$	77,509	237

Rent expense for the years ended February 2, 2002, February 3, 2001, and January 29, 2000 was as follows:

		2002	2001	2000
			(In thousands)	
Minimum rentals	$	40,415	43,671	38,403
Contingent rentals		225	196	142
		40,640	43,867	38,545
Less sublease rentals		388	901	921
Net rentals	$	40,252	42,966	37,624

Other Commitments and Contingencies

On August 22, 2001, the Bankruptcy Court approved severance agreements and a retention program for certain key employees. The severance agreements superseded and replaced all employment, severance and change of control severance agreements in place prior to August 22, 2001 for such executives. Under the severance agreements, 12 of the Company's officers are entitled to payments in the event of termination without cause, change of control, or liquidation of the Company. At February 2, 2002, the maximum aggregate commitment amount payable under these severance agreements, should all of the covered employees be terminated in a manner triggering severance payment, is $4.3 million. Severance agreements for 10 of the Company's officers were assumed by Designs.

Under the retention program, certain employees are entitled to receive retention payments if they remain employed and in good standing on three milestone dates: (i) three months after the filing of the Chapter 11 petition (i.e. August 18, 2001), (ii) nine months after the filing of the Chapter 11 petition (i.e. February 18, 2002) or upon "emergence" from the Chapter 11 Case, as defined in the retention program, if earlier and (iii) upon "emergence"

from the Chapter 11 Case. The Company made aggregate retention payments under the plan of $1.0 million on both August 18, 2001 and February 18, 2002, and, based on the sale to Designs, $2.1 million on May 15, 2002.

At February 2, 2002 and February 3, 2001, the Company was contingently liable under letters of credit totaling $0.8 million and $1.9 million, respectively. These letters of credit, which have terms ranging from one month to one year, are used primarily to collateralize obligations to third parties for the purchase of the Company's inventory. The fair value of these letters of credit is estimated to be the same as the contract values based on the nature of fee arrangements with the issuing banks. No material loss is anticipated due to nonperformance by counterparties to these arrangements.

(9) Stockholders' Equity

The board of directors of the Company is authorized by vote or votes, from time to time adopted, to provide for the issuance of Preferred Stock in one or more series and to fix and state the voting powers, designations, preferences and relative participating, optional, or other special rights of the shares of each series and the qualifications, limitations, and restrictions thereof.

On December 15, 1994, the Company's board of directors adopted a Shareholder Rights Agreement (the Rights Agreement) designed to enhance the Company's ability to protect shareholder interests and to ensure shareholders receive fair treatment in the event any future coercive takeover attempt of the Company is made. Pursuant to the Rights Agreement, the board of directors declared a dividend distribution of one preferred stock purchase right (the Right) for each outstanding share of the Company's common stock to shareholders of record as of the close of business on January 6, 1995. Each right entitles the holder to purchase from the Company a unit consisting of one ten thousandth (1/10,000) of a share of Series A Junior Participating Cumulative Preferred Stock, par value $1.00 per share, at a cash exercise price of $70 per unit, subject to adjustment, upon the occurrence of certain events as set forth in the Rights Agreement. These events include the earliest to occur of: (i) the acquisition of 15% or more of the Company's outstanding common stock by any person or group; (ii) the commencement of a tender or exchange offer that would result upon its consummation in a person or a group becoming the beneficial owner of 15% or more of the Company's outstanding common stock; or (iii) the determination by the board of directors that any person is an "Adverse Person", as defined in the Rights Agreement. The Rights are not exercisable until or following the occurrence of one of the above events and will expire on December 14, 2004 unless previously redeemed or exchanged by the Company, as provided in the Rights Agreement.

(10) Supplemental Schedules

Supplemental schedule to consolidated statement of cash flows:

		2002	2001	2000
Cash paid for:				
Interest	$	11,764,208	21,612,192	16,141,233
Income taxes		371,187	1,373,971	2,235,758
Schedule of noncash financing activity:				
Warrants issued with senior subordinated debt		—	—	3,300,000

Supplemental schedule for the allowance for doubtful accounts:

		2002	2001	2000
Balance beginning of year	$	220,000	200,000	185,000
Additions charged to expense		700,000	80,000	107,000
Write-offs, net of recoveries		(20,000)	(60,000)	(92,000)
Balance end of year	$	900,000	220,000	200,000

(b) Pro Forma Financial Information

The following pro forma financial information is subject to revision, which could have a significant impact on total assets, total liabilities and stockholders' equity (deficit), depreciation and amortization, interest expense and income taxes:

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of May 4, 2002
Unaudited Pro Forma Condensed Consolidated Statements of Operations for the three months ended May 4, 2002
Unaudited Pro Forma Condensed Consolidated Statements of Operations for the year ended February 2, 2002
Notes to Unaudited Pro Forma Condensed Consolidated Financial Information

The unaudited pro forma financial information included herein gives effect to the Company's acquisition of Casual Male and to the financing transactions completed by the Company as of May 14, 2002. The Unaudited Pro Forma Condensed Consolidated Statements of Operations for the three months ended May 4, 2002 and the year ended February 2, 2002 are based on historical data as reported by the separate companies, and reflect adjustments prepared as if the acquisition had occurred on February 3, 2002 and February 4, 2001, respectively. The Unaudited Pro Forma Condensed Consolidated Balance Sheet is based on historical data as reported by the separate companies, and reflects adjustments prepared as if the acquisition had occurred on May 4, 2002.

The acquisition of Casual Male has been accounted for using the purchase method of accounting. Accordingly, the assets acquired and liabilities assumed have been recorded at their estimated fair values, with appropriate recognition given to the Company's borrowing rates, accounting policies, and income taxes. The Company's management does not expect that the final allocation of the purchase price for the acquisition of Casual Male will differ materially from the allocations used to prepare the unaudited pro forma financial information presented herein.

The Unaudited Pro Forma Condensed Consolidated Financial Statements contained herein (the "Statements") have been prepared based on available information, using assumptions that the Company's management believes are reasonable. The Statements do not purport to represent the actual financial position or results of operations that would have occurred if the acquisition had occurred on the dates specified. The Statements are not necessarily indicative of the results that may be achieved in the future. The Statements do not reflect any adjustments for the effect of certain operating synergies or expected cost reductions that the Company may realize as a result of the acquisition. No assurances can be given as to the amount of financial benefits, if any, that may actually be realized as the result of the acquisition.

The assumptions used and adjustments made in preparing the Statements are described in the Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements contained herein (the "Notes"), which should be read in conjunction with the Statements contained herein. The Statements and related Notes contained herein should be read in conjunction with the consolidated financial statements and related notes of the Company included in its Annual Report on Form 10-K for the year ended February 2, 2002, and the consolidated financial statements and related notes of Casual Male included above.

DESIGNS, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
May 4, 2002

(In thousands)	Historical Designs, Inc.	Historical Casual Male Corp.	Pro Forma Adjustments	Note 3	Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 4,974	$ (4,784)	a,b	$ 190
Accounts receivable	278	4,500	(2,630)	b	2,148
Inventories	69,273	-	98,032	b	167,305
Deferred income taxes	1,082	-	-		1,082
Prepaid expenses	3,012	778	5,109	b	8,899
Assets held for sale	-	124,996	(124,996)	b	-
Total current assets	73,645	135,248	(29,269)		179,624
Property and equipment, net of accumulated depreciation and amortization	20,052	-	65,474	b	85,526
Deferred income taxes	7,326	-	8,000	c	15,326
Other assets	1,072	11	39,992	b	41,075
Total assets	$ 102,095	$ 135,259	$ 84,197		$ 321,551
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term debt	$ -	$ 35,263	$ (34,443)	b	$ 820
Accounts payable	15,367	1,155	24,642	b	41,164
Accrued expenses and other current liabilities	12,420	4,132	8,107	b	24,659
Borrowings under revolver	33,641	45,268	(15,113)	a,b	63,796
Total current liabilities	61,428	85,818	(16,807)		130,439
Long-term debt, net of current portion (Note 5)	-	-	54,607	a,b	54,607
Liabilities subject to compromise	-	148,244	(148,244)	b	-
Total liabilities	61,428	234,062	(110,444)		185,046
Stockholders' equity:					
Series B convertible preferred stock	-	-	180	a	180
Common stock	176	7,104	(7,090)	a,b	190
Additional paid-in capital	56,237	121,534	(33,890)	a,b	143,881
(Accumulated deficit) retained earnings	(7,099)	(227,441)	235,441	b,c	901
Treasury stock	(8,450)	-	-		(8,450)
Note receivable from officer	(197)	-	-		(197)
Total stockholders' equity	40,667	(98,803)	194,641		136,505
Total liabilities and stockholders' equity	$ 102,095	$ 135,259	$ 84,197		$ 321,551

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.

DESIGNS, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three months ended May 4, 2002

(In thousands, except share data)	Historical Designs, Inc.	Historical Casual Male Corp.	Pro Forma Adjustments	Note 4	Pro Forma Combined
Sales	$ 36,441	$ 78,371	$ -		$ 114,812
Cost of goods sold including occupancy	28,448	35,494	9,715	a	73,657
Gross profit	7,993	42,877	(9,715)		41,155
Expenses:					
Selling, general and administrative	9,077	37,904	(10,912)	a	36,069
Reorganization costs	-	2,098	(2,098)	b	-
Depreciation and amortization	1,411	2,254	(554)	c	3,111
Total expenses	10,488	42,256	(13,564)		39,180
Operating income (loss)	(2,495)	621	3,849		1,975
Interest expense, net	353	2,546	43	d	2,942
Income (loss) before income taxes	(2,848)	(1,925)	3,806		(967)
Provision (benefit) for income taxes	(1,053)	-	696	e	(357)
Net (loss) income	$ (1,795)	$ (1,925)	$ 3,110		$ (610)
Net loss per share - basic	($0.12)	($0.14)			($0.02)
Net loss per share - diluted	($0.12)	($0.14)			($0.02)
Weighted average number of common and preferred shares outstanding:					
Basic	14,576	14,206			35,687
Diluted	14,576	14,206			35,687

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.

DESIGNS, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the fiscal year ended February 2, 2002

(In thousands, except share data)	Historical Designs, Inc.	Historical Casual Male Corp.	Pro Forma Adjustments	Note 4	Pro Forma Combined
Sales	$ 195,119	$ 430,807	$ (98,275)	a	$ 527,651
Cost of goods sold including occupancy	147,898	246,468	(48,693)	a	345,673
Gross profit	47,221	184,339	(49,582)		181,978
Expenses:					
Selling, general and administrative	39,743	190,585	(88,505)	a	141,823
Reorganization costs	-	37,974	(37,974)	b	-
Provision for impairment of assets	-	12,292	(12,292)	b	-
Depreciation and amortization	5,398	12,633	(5,832)	c	12,199
Total expenses	45,141	253,484	(144,603)		154,022
Operating income (loss)	2,080	(69,145)	95,021		27,956
Interest expense, net	1,905	13,671	(3,313)	d	12,263
Income (loss) before income taxes	175	(82,816)	98,334		15,693
Provision (benefit) for income taxes	8,056	304	(2,562)	e	5,798
Net (loss) income	$ (7,881)	$ (83,120)	$ 100,896		$ 9,895
Net (loss) income per share - basic	($0.54)	($5.85)			$0.28
Net (loss) income per share - diluted	($0.54)	($5.85)			$0.28
Weighted average number of common and preferred shares outstanding:					
Basic	14,486	14,206			35,596
Diluted	14,486	14,206			36,174

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.

DESIGNS, INC.

Notes to Unaudited Pro Forma Condensed Consolidated Financial Information

1. Basis of Presentation

The unaudited pro forma financial information included herein gives effect to the acquisition by Designs, Inc. (the "Company") of substantially all the assets Casual Male Corp. and certain of its subsidiaries ("Casual Male"). The Unaudited Pro Forma Condensed Consolidated Statements of Operations for the three months ended May 4, 2002 and the year ended February 2, 2002 are based on historical data as reported by the separate companies, and reflect adjustments prepared as if the acquisition had occurred on February 3, 2002 and February 4, 2001, respectively. The Unaudited Pro Forma Condensed Consolidated Balance Sheet is based on historical data as reported by the separate companies, and reflects adjustments prepared as if the acquisition had occurred on May 4, 2002.

The acquisition of Casual Male has been accounted for using the purchase method of accounting. Accordingly, the assets acquired and liabilities assumed have been recorded at their estimated fair values, with appropriate recognition given to the Company's borrowing rates, accounting policies, and income taxes. The Company's management does not expect that the final allocation of the purchase price for the acquisition of Casual Male will differ materially from the allocations used to prepare the unaudited pro forma financial information presented herein.

2. Description of Acquisition

On May 14, 2002, the Company completed the acquisition of substantially all of the operating assets of Casual Male, including the retail stores and the catalog and e-commerce business, for a purchase price of approximately $170 million plus the assumption of certain operating liabilities. The acquisition was pursuant to an Asset Purchase Agreement entered into as of May 2, 2002 (the "Asset Purchase Agreement") by and among Designs, Inc. and Casual Male. The Company was selected as the highest and best bidder for the Casual Male assets at a bankruptcy court ordered auction commencing May 1, 2002 and concluded on May 2, 2002. The U.S. Bankruptcy Court for the Southern District of New York subsequently granted its approval for the acquisition of Casual Male by the Company on May 7, 2002.

The Casual Male acquisition, along with the payment of certain related fees and expenses, was completed with funds provided by: (i) approximately $30.2 million in additional borrowings from the Company's amended three year $120.0 million senior secured credit facility with the Company's bank, Fleet Retail Finance, Inc. ("FRFI"), (ii) $15.0 million in a three year term loan with a subsidiary of FRFI, (iii) proceeds from the private placement of $24.5 million principal amount of 12% senior subordinated notes due 2007 together with detachable warrants to acquire 1,715,000 shares of the Company's Common Stock, par value $.01 per share ("Common Stock"), at an exercise price of $.01 per share, and additional detachable warrants to acquire 1,176,471 shares of Common Stock at an exercise price of $8.50 per share, (iv) $11.0 million principal amount of 5% senior subordinated notes due 2007, (v) approximately $82.5 million of proceeds from the private placement of approximately 1.4 million shares of Common Stock and 180,162 shares of newly designated Series B Convertible Preferred Stock, par value $0.01 per share ("Series B Preferred Stock") (equivalent to approximately 18.0 million shares of Common Stock, conditioned upon shareholder approval for conversion), and (vi) the assumption of a mortgage note in the principal amount of approximately $12.2 million.

The convertibility of the Series B Preferred Stock and the exercisability of certain such warrants is subject to approval by the stockholders of the Company. The newly issued Common Stock and the Common Stock issuable upon conversion of the Series B Preferred Stock and the exercise of warrants are subject to certain rights to require registration under the Securities Act of 1933, as amended.

3. Pro Forma Adjustments as of May 4, 2002

The pro forma adjustments to the unaudited pro forma condensed consolidated balance sheet reflect the purchase of Casual Male and the allocation of the pro forma purchase price to the acquired assets and the assumed liabilities based on the preliminary estimate of their fair market value at the date of acquisition.

a) The adjustment reflects the funds raised in connection with the Casual Male acquisition, as follows:
   i) $30.2 million in borrowings under a senior secured credit facility with FRFI.
   ii) $15.0 million term loan with a subsidiary of FRFI, Back Bay Capital.
   iii) $11.0 million principal amount of 5% senior subordinated notes.
   iv) $24.5 million principal amount of 12% senior subordinated notes, and the issuance of warrants to purchase 1,715,000 shares of Common Stock at an exercise price of $.01 per share. In addition, $10.0 million of the $24.5 million senior subordinated notes were issued together with additional detachable warrants to acquire 1,176,471 shares at an exercise price of $8.50 per share.
   v) $82.5 million of gross proceeds from the private placement of approximately 1.4 million shares of Common Stock and 180,162 shares of Series B Preferred Stock, less offering costs of approximately $2 million. In connection with the offering costs, the Company issued warrants to purchase 500,000 shares of Common Stock at an exercise price of $4.25 per share.

b) The adjustment reflects the consummation of the acquisition, including payment to the Casual Male Corp. for certain assets held for sale, payment of certain related fees and expenses, accrual for estimated transaction costs, and the elimination of the net assets of Casual Male Corp. The adjustment also reflects the allocation of the purchase price, as follows:

(In thousands)		
Cash paid to Casual Male Corp. (1)	$	159,004
Estimated transaction and severance costs		8,750
Cost of the acquisition of Casual Male	$	167,754

		Debit (Credit)
Cash and cash equivalents	$	190
Accounts receivable		1,870
Merchandise inventory		98,032
Prepaid expenses		5,887
Property and equipment		65,474
Other assets		6,659
Casual Male trademark		29,544
Customer lists		1,600
Accounts payable		(25,797)
Accrued expenses and other current liabilities		(3,489)
Mortgage note		(12,216)
Estimated fair value of net assets acquired	$	167,754

(1) Amount is net of offering costs of $2.0 million and financing fees of $2.2 million. The offering costs are reflected as a reduction of equity and the financing fees are reflected in other assets on the pro forma condensed consolidated balance sheet.

c) The $8.0 million charge against the Company's deferred tax assets in the year ended February 2, 2002 was eliminated as a non-recurring cost due to the availability of pro forma taxable income.

4. *Pro Forma Adjustments for the Three Months Ended May 4, 2002 and the Fiscal Year Ended February 2, 2002*

The pro forma adjustments to the unaudited pro forma condensed consolidated income statement reflect the purchase of Casual Male and the conforming of Casual Male's financial statement presentation to that of the Company.

a) The adjustment is intended to reflect the pro forma results of the Statement of Operations on a continuing basis and include adjustments for the following:
   i) elimination of the operations of the Casual Male Corp. Work n' Gear business sold to Sandy Point LLC effective May 4, 2002;
   ii) non-continuing sales, cost of goods sold and selling, general and administrative costs associated with closing 134 stores;
   iii) reduction in the corporate overhead of Casual Male Corp. due to downsizing as a result of closing 134 stores;
   iv) elimination of certain overhead costs relating to the relocation of the Casual Male Corp. catalog business, Think Big Direct, from Alpharetta, Georgia to Canton, Massachusetts;
   v) elimination of non-recurring write-offs and reserves relating to the discontinuance of Casual Male Corp.;
   vi) reduction for costs associated with terminated corporate employees of Casual Male Corp. and
   vii) consolidation of the Company's corporate headquarters and distribution facilities.

Three Months Ended May 4, 2002		Sales	Cost of Sales	SG&A
Costs relating to terminated corporate employees	$	-	-	(884)
Facility consolidation		-	-	(313)
Subtotal		-	-	(1,197)
Reclassification of occupancy expense (1)		-	9,715	(9,715)
Total adjustment	$	-	9,715	(10,912)

Year Ended February 2, 2002		Sales	Cost of Sales	SG&A
Work n' Gear operations	$	(53,970)	(33,842)	(24,650)
Store closures		(44,305)	(40,425)	(21,887)
Think Big Direct		-	-	(3,738)
Corporate overhead		-	-	(4,292)
Write-offs and reserves		-		(3,135)
Costs relating to terminated corporate employees		-	-	(3,895)
Facility consolidation		-	-	(1,334)
Subtotal		(98,275)	(74,267)	(62,931)
Reclassification of occupancy expense (1)		-	38,120	(38,120)
Reclassification of cost of sales (1)		-	(12,546)	12,546
Total adjustment	$	(98,275)	(48,693)	(88,505)

(1) Historical occupancy expenses for Casual Male are reclassified from selling, general and administrative expenses to cost of goods sold to conform to the Company's presentation. In addition, certain overhead costs included in the historical cost of goods sold of Casual Male are reclassified to selling, general and administrative expenses to conform to the Company's presentation.

b) The adjustment reflects the elimination of reorganization costs and provision for impairment of assets.

c) Depreciation and amortization expense was adjusted to reflect the fair market revaluation of Casual Male property and equipment, as well as the amortization of the deferred financing costs over a 3-year period. In addition, depreciation expense was adjusted for the Casual Male Corp. stores closed during the year ended February 2, 2002. The corporate headquarters building located in Canton, Massachusetts is depreciated over a 30-year remaining useful life and the average remaining useful life of stores purchased in the acquisition is 7 years.

d) Interest expense was adjusted to reflect debt levels and varied rates of interest used to acquire the assets of Casual Male.

e) Income taxes were adjusted to record the tax effect of the pro forma adjustments at an effective tax rate of 37%. In addition, the $8.0 million charge against the Company's deferred tax assets in the year ended February 2, 2002 was eliminated as a non-recurring cost due to the availability of pro forma taxable income.

5. *Pro Forma Long-term Debt*

Pro forma long-term debt as of May 4, 2002 was comprised of the following:

(In thousands)		
12% senior subordinated notes due 2007 (a)	$	17,211
Term loan (b)		15,000
5% senior subordinated notes due 2007		11,000
Mortgage note (c)		12,216
Total long-term debt		55,427
Less: current portion of mortgage note		(820)
Long-term debt, less current portion	$	54,607

a) The principal amount of the 12% senior subordinated notes of $24.5 million is net of warrants to purchase 1,715,000 shares of Common Stock at an exercise price of $.01 per warrant, and additional detachable warrants to acquire 1,176,471 shares of Common Stock at an exercise price of $8.50 per share. The total estimated value of the warrants of $7,289,000 will be amortized over the five-year life of the notes as interest expense.

b) The three-year term loan includes a 12% coupon, 3% paid-in-kind, and 3% annual commitment fee, for a total annual yield of 18%.

c) The mortgage note is payable in equal monthly installments of principal and interest over its remaining term of 10 years and bears interest at 9.0%.

6. *Pro Forma Net Income (Loss) Per Share*

Pro forma basic earnings per share for the three months ended May 4, 2002 and the year ended February 2, 2002 assumes that the Series B Preferred Stock was converted to 18,016,200 shares of Common Stock and certain warrants were fully exercised for 2,215,000 shares of Common Stock on February 3, 2002 and February 4, 2001, respectively. Pro forma diluted earnings per share is determined by giving effect to the exercise of stock options and warrants using the treasury stock method.

(In thousands)	Three Months Ended May 4, 2002	Year Ended February 2, 2002
Basic weighted-average common shares outstanding	36,187	36,096
Stock options, excluding anti-dilutive options of 764 shares for the three months ended May 4, 2002	-	578
Diluted weighted-average shares outstanding	36,187	36,674

Options to purchase shares of Common Stock, par value $.01 per share, of 178,350 and 933,900 for the three months ended May 4, 2002 and the year ended February 2, 2002, respectively, and warrants to purchase 1,176,471 shares of Common Stock at an exercise price of $8.50 per share, were assumed outstanding during the respective periods but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the Common Stock for the period reported.

(c) Exhibits

23.1	Consent of KPMG LLP.

SIGNATURES

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

DESIGNS, INC.

Date: June 14, 2002

By: /s/ DENNIS R. HERNREICH
Name: Dennis R. Hernreich
Title: Senior Vice President and
Chief Financial Officer

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