

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

Quarter Ended May 2, 1998

Commission File Number 0-15898

DESIGNS, INC.

-----  
(Exact name of registrant as  
specified in its charter)

Delaware

04-2623104

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

66 B Street, Needham, MA

02194

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(781) 444-7222

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(Registrant's telephone  
number, including area code)

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

Yes      X                      No  
-----                      -----

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

Class	Outstanding as of May 2, 1998
-----	-----
Common	15,739,369

DESIGNS, INC.

CONSOLIDATED BALANCE SHEETS

May 2, 1998, May 3, 1997 and January 31, 1998

(In thousands, except per share data)

(Unaudited)

	May 2, 1998	May 3, 1997	January 31, 1998
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ASSETS

Current assets:			
Cash and cash equivalents	\$ 3,758	\$ 119	\$ 1,473
Accounts receivable	214	467	115
Inventories	56,926	104,112	54,972
Income taxes refundable and deferred	2,760	2,179	13,857
Prepaid expenses	1,342	6,359	1,015
	-----		
Total current assets	65,000	113,236	71,432
Property and equipment, net of accumulated depreciation and amortization			
	32,724	40,851	35,307
Other assets:			
Deferred income taxes	6,362	2,700	6,362
Intangible assets, net	2,885	3,053	2,945
Other assets	456	303	353
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Total assets	\$107,427	\$160,143	\$116,399
	=====		

#### LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$ 12,592	\$ 25,390	\$ 8,821
Accrued expenses and other current liabilities	6,543	7,779	6,129
Accrued rent	2,992	2,593	2,751
Reserve for severance and store closings	491	-	1,799
Notes payable	1,000	10,600	9,828
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Total current liabilities	23,618	46,362	29,328
Minority interest	4,465	5,807	4,691
Stockholders' equity:			
Preferred Stock, \$0.01 par value, 1,000,000 shares authorized, none issued			
Common Stock, \$0.01 par value, 50,000,000 shares authorized, 16,020,000, 15,903,000 and 16,012,000 shares issued at May 2, 1998, May 3, 1997 and January 31, 1998, respectively	160	159	160
Additional paid-in capital	53,668	53,371	53,652
Retained earnings	27,343	56,271	30,395
Treasury stock at cost, 281,000 shares	(1,827)	(1,827)	(1,827)
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Total stockholders' equity	79,344	107,974	82,380
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Total liabilities and stockholders' equity	\$107,427	\$160,143	\$116,399
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The accompanying notes are an integral part of the consolidated financial statements.

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

	Three Months Ended		Twelve Months Ended	
	May 2, 1998	May 3, 1997	May 2, 1998	May 3, 1997
Sales	\$43,400	\$55,470	\$253,656	\$285,727
Cost of goods sold including occupancy	34,024	41,984	219,408	202,169
Gross profit	9,376	13,486	34,248	83,558
Expenses:				
Selling, general and administrative	11,946	16,055	61,548	65,931
Restructuring charge	-	-	7,646	-
Depreciation and amortization	2,491	2,786	10,939	10,705
Total expenses	14,437	18,841	80,133	76,636
Operating income (loss)	(5,061)	(5,355)	(45,885)	6,922
Interest expense	191	151	891	304
Interest income	20	55	110	903
Income (loss) before minority interest and income taxes	(5,232)	(5,451)	(46,666)	7,521
Less minority interest	(226)	(16)	(533)	624
Income (loss) before income taxes	(5,006)	(5,435)	(46,133)	6,897
Provision (benefit) for income taxes	(1,954)	(2,251)	(17,202)	2,672
Net income (loss)	\$(3,052)	\$(3,184)	\$(28,931)	\$ 4,225
Earnings per share-Basic and Diluted	\$ (0.19)	\$ (0.20)	\$ (1.85)	\$ 0.27

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

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

	Three months ended	
	May 2, 1998	May 3, 1997
Cash flows from operating activities:		
Net loss	\$(3,052)	\$(3,184)
Adjustments to reconcile to net cash provided by (used for) operating activities:		
Depreciation and amortization	2,491	2,786
Minority interest	(226)	(16)
Loss on sale of investments	-	102
Loss from disposal of property and equipment	130	3
Changes in operating assets and liabilities:		
Accounts receivable	(100)	91
Inventories	(1,954)	(24,154)
Prepaid expenses	(327)	(1,942)
Reserve for severance and store closings	(1,308)	-
Income taxes payable	11,097	(1,353)
Accounts payable	3,771	13,196
Accrued expenses and other current liabilities	544	733
Accrued rent	241	195
Net cash provided by (used for) operating activities	11,307	(13,543)
Cash flows from investing activities:		
Additions to property and equipment	(151)	(4,161)
Incurance of pre-opening costs	-	(104)
Proceeds from disposal of property and equipment	87	1
Sale and maturity of investments	-	5,785
(Increase) reduction in other assets	(146)	51
Distributions to joint venture partner	-	(900)
Net cash (used for) provided by investing activities	(210)	672
Cash flows from financing activities:		
Net (payments) borrowings under credit facility	(8,828)	9,600
Issuance of common stock under option program (1)	16	-
Net cash (used for) provided by financing activities	(8,812)	9,600
Net increase (decrease) in cash and cash equivalents	2,285	(3,271)
Cash and cash equivalents:		
Beginning of the year	1,473	3,390
End of the quarter	\$3,758	\$ 119

(1) Net of related tax effect.

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

DESIGNS, INC.  
Notes to Consolidated Financial Statements

1. Basis of Presentation

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim financial statements. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the notes contained in the Company's audited consolidated financial statements for the year ended January 31, 1998. The Company's business has historically been seasonal in nature and the results of the interim periods presented are not necessarily indicative of the results to be expected for the full year.

2. Minority Interest

On January 28, 1995, Designs JV Corp., a wholly-owned subsidiary of the Company, and a subsidiary of Levi's Only Stores, Inc., a wholly-owned subsidiary of Levi Strauss & Co., entered into a partnership agreement (the "Partnership Agreement") to sell Levi's(R) brand jeans and jeans-related products in Original Levi's Stores(TM) and Levi's(R) Outlet stores. The joint venture established under the Partnership Agreement is known as The Designs/OLS Partnership (the "OLS Partnership"). The operating results of the OLS Partnership are consolidated with the financial statements of the Company for the three and twelve months ended May 2, 1998. Minority interest at May 2, 1998 represents LDJV Inc.'s 30% interest in the OLS Partnership. During the first quarter of fiscal 1998, the OLS Partnership made no distributions of "excess cash" to its partners and distributed a total of \$3.0 million in "excess cash" to its partners during the first quarter of fiscal 1997 in accordance with the terms of the Partnership Agreement.

3. Boston Trading Ltd., Inc. Acquisition

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

4. Credit Facility

On December 10, 1997, the Company and BankBoston, N.A. entered into a Credit Agreement, which was amended on January 31, 1998 (as amended, the "Credit Agreement"). The credit facility established under the Credit Agreement, which was replaced subsequent to May 2, 1998 by a new \$50 million credit facility which is more fully discussed in Note 8, consisted of a revolving line of credit permitting the Company to borrow up to \$25 million. Under the facility, the Company could have caused BankBoston, N.A. to issue documentary and standby letters of credit up to \$2 million. Availability of the unused revolving line of credit was subject to borrowing base requirements and compliance with certain earnings, net worth and inventory turnover covenants and a cash flow ratio covenant which was to become effective beginning the fourth quarter of fiscal 1998. The Company's borrowings under the credit facility were secured by

a security interest in all of the Company's Levi Strauss & Co. brand inventory, accounts receivable and certain intangible assets of the Company, excluding all assets of the OLS Partnership and the Company's Boston Traders(R) trademark and its other related trademarks. At the option of the Company, borrowings under this facility bore interest at BankBoston, N.A.'s prime rate or at LIBOR-based fixed rates (depending upon the Company's quarterly ratio of cash flow to fixed charges). Under the Credit Agreement, the Company agreed not to pay cash dividends on its Common Stock if such payment would cause the Company to be in default of certain financial ratios. To date, the Company has not paid any cash dividends.

At May 2, 1998, the Company had no outstanding borrowings under this facility and had two outstanding standby letters of credit totaling approximately \$245,000. In addition, the Company was in compliance with all debt covenants at the end of the first quarter of fiscal 1998.

#### 5. Joint Venture Credit Agreement

During the third quarter of fiscal 1996, the Company entered into a one year Credit Agreement (the "OLS Credit Agreement") with the OLS Partnership and Levi's Only Stores, Inc. under which the Company and Levi's Only Stores, Inc. are committed to make advances to the OLS Partnership in the amount of \$3.5 million and \$1.5 million, respectively. During the third quarter of fiscal 1997, the term of the OLS Credit Agreement was extended through September 30, 1998, unless earlier terminated pursuant to the provisions of the OLS Credit Agreement. This credit facility bears interest at BankBoston, N.A.'s prime rate. The OLS Credit Agreement also provides that there may not be credit advances outstanding on the last day of the fiscal year. No advances were outstanding under this facility during the first quarter of fiscal 1998.

#### 6. Net Income Per Share

The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128") and all historical net income per share data has been restated to conform to the provisions of this statement. The following table reconciles the numerator and the denominators of the basic and diluted earnings per share (EPS) computation as shown on the Consolidated Statements of Income.

(In thousands except per share data)

	Three Months Ended		Twelve Months Ended	
	May 2, 1998	May 3, 1997	May 2, 1998	May 3, 1997
<b>Basic EPS Computation</b>				
Numerator:				
Net income (loss)	\$(3,052)	\$(3,184)	\$(28,931)	\$4,225
Denominator:				
Weighted average common shares outstanding	15,733	15,606	15,679	15,720
Basic EPS	\$(0.19)	\$(0.20)	\$ (1.85)	\$0.27
<b>Diluted EPS Computation</b>				
Numerator:				
Net income (loss)	\$(3,052)	\$(3,184)	\$(28,931)	\$4,225
Denominator:				
Weighted average common shares outstanding	15,733	15,606	15,679	15,720
Stock options, excluding anti-dilutive options	--	--	--	71
Total shares	15,733	15,606	15,679	15,791
Diluted EPS	\$(0.19)	\$(0.20)	\$ (1.85)	\$0.27

Options to purchase 1,938,350 shares of the Company's Common Stock for the three and twelve months ended May 2, 1998 and 2,286,148 shares and 2,209,200 shares for the three and twelve months ended May 3, 1997, respectively, were outstanding during the respective periods but were not included in the computation of diluted EPS because the exercise prices of the options were greater than the average market price per share of Common Stock for the periods reported. For the three months ended May 3, 1997 and for the twelve months

ended May 2, 1998, 56 shares and 19 shares, respectively, were excluded from the computation of diluted earnings per share as the inclusion of these shares would have been anti-dilutive.

#### 7. Recently Issued Accounting Standards

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 specifies new guidelines for determining a company's operating segments and related requirements for disclosure. SFAS 131 becomes effective for fiscal years beginning after December 15, 1997. The Company is required to adopt this standard for the fiscal year ending January 30, 1999. The Company has not yet determined the impact of this standard.

#### 8. Subsequent Event

On June 4, 1998 the Company entered into a Loan and Security Agreement with a subsidiary of BankBoston, N.A., BankBoston Retail Finance Inc., as agent for the lender(s) named therein (the "1998 Credit Agreement"). The 1998 Credit Agreement establishes a new credit facility which replaces the Company's then existing \$25 million credit facility described in Note 4. The new credit facility, which terminates on May 10, 2001, consists of a revolving line of credit permitting the Company to borrow up to \$50 million. Under this facility, the Company has the ability to cause the lender(s) to issue documentary and standby letters of credit up to \$5 million. The Company's obligations under the 1998 Credit Agreement are secured by a lien on all of the Company's assets, except the assets of the OLS Partnership. The ability of the Company to borrow under the 1998 Credit Agreement is subject to a number of conditions including the accuracy of certain representations and compliance with tangible net worth and fixed charge coverage ratio covenants. The availability of the unused revolving line of credit is limited to specified percentages of the value of the Company's eligible inventory determined under the 1998 Credit Agreement, ranging from 60% to 65%. At the option of the Company, borrowings under this facility bear interest at BankBoston, N.A.'s prime rate or at the LIBOR-based fixed rate. The 1998 Credit Agreement contains certain covenants and events of default customary for credit facilities of this nature, including restrictions on payment of dividends by the Company. The Company is subject to a prepayment penalty if the 1998 Credit Agreement is terminated prior to June 4, 2000.

The Company expects to borrow funds under this revolving credit facility from time to time during the remainder of the fiscal year to fund inventory purchases for the fall and holiday seasons; however, the Company expects that the average borrowing levels in fiscal 1998 will be reduced from fiscal 1997.

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

RESULTS OF OPERATIONS

Sales for the first quarter of fiscal 1998 were \$43.4 million as compared to sales of \$55.5 million in the first quarter of fiscal 1997. Comparable store sales decreased 18 percent for the first quarter of fiscal 1998 as compared to the same period in the prior year. Comparable stores are retail locations that have been open at least 13 months. Of the 122 stores the Company operated as of May 2, 1998, 110 were comparable stores. Approximately \$3.2 million, or 26 percent of the \$12.1 million year-to-date sales decline, is the result of the closure of 31 stores in fiscal 1997 and 2 stores in the first quarter of fiscal 1998. The remainder of the decrease was primarily due to lower sales of men's and women's Levi's(R) brand jeans and tops. Sales for the rolling twelve months ended May 2, 1998 were \$253.7 million compared to \$285.7 million for the rolling twelve months ended May 3, 1997. As reported by certain national and trade publications, the Levi's(R) brand has experienced a decline in U.S. market share which has affected the Company's sales of Levi's(R) brand merchandise. In the first quarter of fiscal 1998, approximately 62% of the Company's revenue was generated by sales in Levi's(R) Outlet by Designs stores. The Company anticipates that decreases in comparable store sales will continue through most of fiscal 1998.

Gross margin rate (including the costs of occupancy) for the first quarter of fiscal 1998 equaled 21.6 percent of sales as compared with 24.3 percent for the same period in the prior year. This decrease was due to negative leverage in occupancy costs of 2.9 percentage points due to lower sales, partially offset by a 0.2 percentage point improvement in merchandise margin. This improvement in merchandise margin is the result of decreased permanent markdowns in all store formats, based on lower inventories and the elimination of poor performing Boston Traders(R) brand product from the merchandise mix. Additionally, margin was positively impacted by decreased promotional markdowns and fewer promotional events as well as an increase in initial margins on certain Levi's(R) Outlet merchandise. Gross margin rate for the rolling twelve months ended May 2, 1998 was 13.5 percent compared to 29.2 percent for the rolling twelve months ended May 3, 1997. This decrease was primarily due to merchandise markdowns and reserves recorded for fabric commitment cancellations in the second quarter of fiscal 1997 related to the Company's shift in strategy away from its private label product line, adjustments for inventory shrinkage against physical inventory results recorded in the fourth quarter of fiscal 1997 and reserves recorded against pending resolutions of vendor discussions regarding proofs of delivery of certain goods.

Selling, general and administrative expenses decreased as a percentage of sales to 27.5 percent, or \$11.9 million, for the first quarter of fiscal 1998 from 28.9 percent of sales, or \$16.1 million, in the first quarter of the prior year. Store payroll expense, the largest component of selling, general and administrative expenses, equaled 13.1 percent of sales for the first quarter of fiscal 1998, compared with 13.3 percent in the first quarter of the prior year. The \$4.2 million decrease in selling, general and administrative expenses is primarily due to the expense reduction actions taken in fiscal 1997, ongoing expense reduction programs implemented by the Company, and reduced payroll expense as a result of the sales shortfall. Selling, general and administrative expenses for the rolling twelve month period decreased to \$61.5 million as compared to \$65.9 million for the same rolling twelve month period ended the first quarter of the prior fiscal year due to decreased payroll expense as a result of lower sales and cost saving initiatives.

In the second quarter of fiscal 1997, the Company recorded a \$20 million, or \$(0.75) per share, non-recurring pre-tax charge related to the Company's shift in strategy away from the vertically integrated Boston Traders(R) private label concept to a strategy with greater emphasis on name brands. Approximately \$13.9 million of this charge related to merchandise markdowns and fabric reserves is accounted for in cost of goods sold for the rolling twelve months ended May 2, 1998. The remaining approximately \$6.1 million related to lease terminations, asset impairment charges, severance and other costs is included in the restructuring charge for the same period. In addition, in the fourth quarter of fiscal 1997, the Company recorded an additional non-recurring pre-tax charge of \$1.6 million, or \$(0.06) per share, related to the Company's January 1998 reduction in force. This charge is also included in the restructuring charge for the rolling twelve months ended May 2, 1998.

Depreciation and amortization expense of \$2.5 million for the first quarter of fiscal 1998 decreased by 11 percent compared with depreciation and amortization expense of \$2.8 million for the same period in fiscal 1997. This decrease is



principally due to a reduction of the Company's fixed asset balances as a result of the write off in fiscal 1997 of 33 stores closed by the Company. For the rolling twelve month period ended May 2, 1998, depreciation and amortization increased by 2 percent, primarily due to the timing of new store openings in the prior year.

Interest expense was \$191,000 and \$151,000 in the first quarter of fiscal 1998 and fiscal 1997, respectively. On a rolling twelve month basis, interest expense increased to \$891,000 as compared to \$304,000 for the same rolling twelve month period ended the first quarter of the prior fiscal year. These increases are attributable to higher average borrowing levels under the Company's revolving credit facility for the three and twelve month periods ended May 2, 1998 as compared with the same periods in the prior year. The Company anticipates, barring unforeseen circumstances, that interest expense will decrease in fiscal 1998 as a result of reduced borrowing levels as compared to fiscal 1997.

Interest income for the first quarter of fiscal 1998 was \$20,000 compared to \$55,000 in the first quarter of fiscal year 1997. For the rolling twelve month period, interest income of \$110,000 decreased by 88 percent from \$903,000 in the prior comparable rolling twelve month period. The decrease in interest income is attributable to limited investment activity as compared to the prior year. The Company anticipates that interest income will be minimal through fiscal 1998.

Net loss for the first quarter of fiscal year 1998 equaled (\$3.1) million or (\$0.19) per share, as compared with a net loss of (\$3.2) million, or (\$0.20) per share in the first quarter of fiscal 1997. Net loss, on a rolling twelve month basis ended May 2, 1998, was (\$28.9) million or (\$1.85) per share, as compared with net income of \$4.2 million, or \$0.27 per share in the prior comparable period. The net loss for the twelve months ended May 2, 1998 includes the impact of non-recurring charges, as discussed above, of (\$21.6) million or (\$0.81) per share.

The Company continues to test a multi-branded store concept. The eleven stores included in this test operate under the Boston Trading Co.(R) name ("BTC"). Some of the brands featured include Levi's(R), silverTab(TM), Buffalo Jeans(R), Polo(R) Jeans, Tommy(R) Jeans (by Tommy Hilfiger), DKNY(R), CK Calvin Klein(R) Lucky Brand(R) Jeans, Enyce(R), FUBU(R), Mecca(R), Mossimo(R), Phat Farm(R) and other brands targeted to a young customer. In the first quarter of fiscal 1998 the Company generated \$1.7 million in sales of other name brand products compared to \$25,000 in the first quarter of fiscal 1997. The Company intends to continue its test of these and other brands in the BTC format through fiscal 1998 and may convert certain of its Designs stores to this format or incorporate certain of these new brands into the Designs stores based on the results of this test.

In an effort to maximize the potential of the remaining eleven Boston Traders(R) Outlet locations, the Company is planning to operate four of these locations as Buffalo Jeans(R) Factory Stores. It is anticipated that the Buffalo Jeans(R) Factory Stores will sell in season as well as closeouts from this fast growing, upscale Canadian manufacturer of fashion apparel. Over time, based on the performance of the four test stores, other Boston Traders(R) Outlet stores could be converted to this format.

#### SEASONALITY

The Company's business is seasonal, reflecting increased consumer buying in the "Fall" and "Holiday" seasons. Historically, the second half of each fiscal year provides a greater portion of the Company's annual sales and operating income. In recent years, the Company's percentage of outlet store business has increased in relation to total sales. Accordingly, the Company's third and fourth quarters, although continuing to provide a greater proportion of total sales, have become less significant to its total sales as had previously been the case. This is due to a difference in seasonality of the Company's outlet business as compared with the mall-based specialty stores.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs 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, federal income tax refunds and trade credit will enable it to finance its current working capital and store remodeling requirements.

During the first quarter of fiscal 1998, the Company received a federal income tax refund totaling \$12.9 million because of losses incurred by the Company during fiscal 1997, which were carried back against federal income tax payments in prior years. The Company used a portion of the cash received to reduce the outstanding borrowings under its credit facility.

#### WORKING CAPITAL AND CASH FLOWS

To date, the Company has financed its working capital requirements and expansion program with cashflow from operations, borrowings under the Company's credit

facility and proceeds from Common Stock offerings. Cash provided by (used for) operations for the first quarter of fiscal 1998 was \$11.3 million as compared to (\$13.5) million for the same period in the prior year. This \$24.8 million improvement is the result of lower inventory purchases, the Company's receipt of the federal income tax refund as well as expense control initiatives. In addition, the Company has available approximately \$6.0 million of net operating losses and credits available to offset future federal and state tax liabilities.

The Company's cash position at May 2, 1998 was approximately \$3.8 million, compared to \$119,000 at May 3, 1997. At May 2, 1998, the Company had no borrowings outstanding under its revolving credit facility as compared to borrowings outstanding of \$9.6 million at May 3, 1997. The Company expects to borrow funds under its new \$50 million revolving credit facility from time to time during the remainder of the fiscal year to fund inventory purchases for the fall and holiday seasons, however, the Company expects that the average borrowing levels in fiscal 1998 will be reduced from fiscal 1997.

The Company's working capital at May 2, 1998 was approximately \$41.4 million, compared to \$66.9 million at May 3, 1997. This decrease in working capital was primarily attributable to the significant decrease in inventory. At May 2, 1998, total inventory equaled \$56.9 million, compared to \$104.1 million at May 3, 1997. The decrease of 45 percent in the Company's inventory level was primarily due to reduced purchases of Levi Strauss & Co. brand products during the third and fourth quarters of fiscal 1997 and the first quarter of fiscal 1998 and the liquidation of Boston Traders(R) brand merchandise. At the end of the first quarter of fiscal 1998, Levi's(R), Dockers(R) and other name brands represented 98.1 percent of inventory. The remaining 1.9 percent of inventory, or \$1.1 million net of markdown reserves, was Boston Traders(R) products. The Company continues to evaluate and, within the discretion of management, act upon opportunities to purchase substantial quantities of Levi's(R) brand products for its Levi's(R) Outlet stores.

The Company's trade payables to Levi Strauss & Co., its principal vendor, generally are due 30 days after the date of invoice. At May 2, 1998, the accounts payable balance was \$12.6 million as compared with a balance of \$25.4 million at May 3, 1997. This 51 percent decrease is primarily related to the corresponding decrease in inventory at the end of the first quarter of fiscal 1998 compared to the same period in the prior year. During the first quarter of fiscal 1998 the Company was current with all outstanding merchandise payables to vendors. The Company expects that purchases of branded merchandise will be in accordance with customary industry credit terms.

On December 10, 1997, the Company and BankBoston, N.A. entered into a Credit Agreement, which was amended on January 31, 1998 (as amended, the "Credit Agreement"). The credit facility established under the Credit Agreement, which was replaced subsequent to May 2, 1998 by a new \$50 million credit facility which is more fully discussed in Note 8 in the Notes to Consolidated Financial Statements, consisted of a revolving line of credit permitting the Company to borrow up to \$25 million. Under the facility, the Company could have caused BankBoston, N.A. to issue documentary and standby letters of credit up to \$2 million. Availability of the unused revolving line of credit was subject to borrowing base requirements and compliance with certain earnings, net worth and inventory turnover covenants and a cash flow ratio covenant which was to become effective beginning the fourth quarter of fiscal 1998. The Company's borrowings under the credit facility were secured by a security interest in all of the Company's Levi Strauss & Co. brand inventory, accounts receivable and certain intangible assets of the Company, excluding all assets of the OLS Partnership and the Company's Boston Traders(R) trademark and its other related trademarks. At the option of the Company, borrowings under this facility bore interest at BankBoston, N.A.'s prime rate or at LIBOR-based fixed rates (depending upon the Company's quarterly ratio of cash flow to fixed charges). Under the Credit Agreement, the Company agreed not to pay cash dividends on its Common Stock if such payment would cause the Company to be in default of certain financial ratios. To date, the Company has not paid any cash dividends.

At May 2, 1998, the Company had no outstanding borrowings under this facility and had two outstanding standby letters of credit totaling approximately \$245,000. In addition, the Company was in compliance with all debt covenants at the end of the first quarter of fiscal 1998.

On January 28, 1995, Designs JV Corp., a wholly-owned subsidiary of the Company, and a subsidiary of Levi's Only Stores, Inc., a wholly-owned subsidiary of Levi Strauss & Co., entered into a partnership agreement (the "Partnership Agreement") to sell Levi's(R) brand jeans and jeans-related products. The joint venture that was established by the Partnership Agreement is known as The Designs/OLS Partnership (the "OLS Partnership"). The term of the joint venture is ten years; however, the Partnership Agreement contains certain exit rights that enable either partner to buy or sell its interest in the joint venture after five years. The Company does not anticipate that the OLS Partnership will open any additional stores in fiscal 1998. At the end of the first quarter of fiscal 1998 there were eleven Original Levi's Stores(TM) and eleven Levi's(R)

## Outlet stores.

During the first quarter of fiscal 1998, the OLS Partnership made no distributions in "excess cash" to its partners in accordance with the terms of the Partnership Agreement. It is the intention of the partners in the joint venture that additional working capital for the joint venture will come from its operations, capital contributions, loans from the partners and borrowings from third parties.

During the third quarter of fiscal 1996, the Company entered into a one year Credit Agreement (the "OLS Credit Agreement") with the OLS Partnership and Levi's Only Stores, Inc. under which the Company and Levi's Only Stores, Inc. are committed to make advances to the OLS Partnership in amounts up to \$3.5 million and \$1.5 million, respectively. During the third quarter of fiscal 1997, the term of the OLS Credit Agreement was extended through September 30, 1998, unless terminated earlier pursuant to other provisions of the OLS Credit Agreement. This credit facility bears interest at BankBoston, N.A.'s prime rate. The OLS Credit Agreement also provides that there may not be credit advances outstanding on the last day of the fiscal year. There were no borrowings under this facility through May 2, 1998.

## CAPITAL EXPENDITURES

Total cash outlays for the first quarter of fiscal 1998 were \$143,000, which represents the cost of store and corporate capital expenditures. Total cash outlays for the first quarter of fiscal 1997 were \$4.1 million. During the first quarter of fiscal 1997, the Company opened five new Boston Trading Co.(R) stores and remodeled one Levi's(R) Outlet by Designs store. As of the end of the first quarter of 1998, the Company had closed one Designs store because its lease had expired in addition to the remaining 2 stores closed as part of the previously announced store closing program.

Most of the Company's computer and process control systems were designed to use only two digits to represent years. As a result, they may not recognize "00" as representing the Year 2000, but rather the year 1900, which could result in errors or system failures. The Company is in the process of converting technology and its information systems to be Year 2000 compliant. The Company expects to spend approximately \$500,000 in conversion and upgrade costs, primarily in fiscal 1998 to accomplish this. Barring unforeseen circumstances, the Company anticipates that the conversion will be complete by the end of calendar year 1999. Of course, the Company's business may be negatively affected by vendors, government agencies and any other entity with which it has dealings whose systems may not be Year 2000 compliant.

On May 2, 1995, the Company acquired certain assets of Boston Trading Ltd., Inc. in accordance with the terms of an Asset Purchase Agreement dated April 21, 1995. The Company paid \$5.4 million in cash, financed by operations, and delivered a non-negotiable promissory note in the principal amount of \$1.0 million (the "Purchase Note"). The principal amount of the Purchase Note was payable in two equal installments through May 1997. In the first quarter of fiscal 1996, the Company asserted certain indemnification rights under the Asset Purchase Agreement. In accordance with the Asset Purchase Agreement, the Company, when exercising its indemnification rights, has the right, among other courses of action, to offset against the payment of principal and interest due and payable under the Purchase Note. Accordingly, the Company did not make either of the \$500,000 payments of principal on the Purchase Note that were due on May 2, 1996 and May 2, 1997. The Company paid interest on the original principal amount of the Purchase Note through May 2, 1996 and continued to pay interest thereafter through November 2, 1997 on \$500,000 of principal.

In November 1996, the Company and Levi Strauss & Co. entered into a trademark license agreement (the "Outlet License Agreement") which provides the terms upon which the Company is permitted to use the Levi Strauss & Co. batwing trademark in connection with the operations of the Company's Levi's(R) Outlet by Designs stores. The Outlet License Agreement authorizes the Company, subject to certain terms and conditions, to operate the Levi's(R) Outlet by Designs stores using the Levi's(R) batwing trademark in 25 states in the eastern portion of the United States. Subject to certain default provisions, the term of the Outlet License Agreement will expire on July 31, 2001, and the license for any particular store is the period co-terminous with the lease term for such store (including extension options in effect in November 1996). The leases (including extension options in effect in November 1996) relating to approximately two-thirds of the Levi's(R) Outlet by Designs stores open at May 2, 1998 expire in or prior to fiscal 2009 and all, except for five such leases, expire in or prior to fiscal 2011.

The Company continually evaluates discretionary investments in new projects that may complement its existing business. Further, as leases expire, the Company may lose the right to use the Levi's(R) trademark in connection with certain Levi's(R) Outlets by Designs stores. The Company continues to evaluate the performance of its existing stores and to consider ways to enhance its outlet business. As a result of this process, certain store locations could be closed

or relocated within a shopping center in the future.

The foregoing discussion of the Company's results of operations, liquidity, capital resources and capital expenditures includes certain forward-looking information. Such forward-looking information requires management to make certain estimates and assumptions regarding the Company's expected strategic direction and the related effect of such plans on the financial results of the Company. Accordingly, actual results and the Company's implementation of its plans and operations may differ materially from forward-looking statements made by the Company. The Company encourages readers of this information to refer to Exhibit 99 of the Company's Annual Report on Form 10-K, previously filed with the United States Securities and Exchange Commission on May 1, 1998, which identifies certain risks and uncertainties that may have an impact on future earnings and the direction of the Company.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

## Part II. Other Information

### ITEM 1. Legal Proceedings

In January 1998 Atlantic Harbor, Inc. (formerly known as "Boston Trading Ltd., Inc.") filed a lawsuit against the Company for refusing 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 was 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. The Company also has commenced a lawsuit involving substantially the same matters against the stockholders of Atlantic Harbor, Inc. Barring unforeseen circumstances, management of the Company does not believe that the result of this litigation will have a material adverse effect on the Company's business or financial condition.

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

### ITEM 2. Changes in Securities and Use of Proceeds

None.

### ITEM 3. Default Upon Senior Securities

None.

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

None.

### ITEM 6. Exhibits and Reports on Form 8-K

#### A. Reports on Form 8-K:

The Company reported under Item 5 of Form 8-K, dated April 1, 1998, that effective January 31, 1998, the Company and BankBoston N.A. entered into a First Amendment to the Credit Agreement. In addition, the Company reported that on March 31, 1998, the Company received a federal income tax refund in the amount of approximately \$12.7 million related to losses incurred during fiscal 1997 which were carried back against federal income taxes paid by the Company in prior years.

#### B. Exhibits:

- |     |  |   |
|-----|--|---|
| 3.1 | Restated Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1 to Amendment No. 3 of the Company's Registration Statement on Form S-1 (No. 33-13402), and incorporated herein by reference).  | * |
| 3.2 | Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated June 22, 1993 (included as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q dated June 17, 1996, and incorporated herein by reference).   | * |
| 3.3 | Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of the Company establishing Series A Junior Participating Cumulative Preferred Stock dated May 1, 1995 (included as Exhibit 3.2 to the Company's Annual Report on Form 10-K dated May 1, 1996, and incorporated herein by reference). | * |
| 3.4 | By-Laws of the Company, as amended (included as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated December 12, 1995, and incorporated herein by reference).   | * |
| 4.1 | Shareholder Rights Agreement dated as of May 1, 1995 between the Company and its transfer agent (included as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 1, 1995, and incorporated herein by reference).   | * |
| 4.2 | First Amendment dated as of October 6, 1997 to the Shareholder Rights Agreement dated as of May 1, 1995 between the Company  |   |

its transfer agent (included as Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 9, 1997, and incorporated herein by reference).

\*

10.1 1987 Incentive Stock Option Plan, as amended (included as Exhibit 10.1 to the Company's Annual Report on Form 10-K dated April 29, 1993, and incorporated herein by reference).

\*

10.2 1987 Non-Qualified Stock Option Plan, as amended (included as Exhibit 10.2 to the Company's Annual Report on Form 10-K dated April 29, 1993, and incorporated herein by reference).

\*

10.3 1992 Stock Incentive Plan, as amended.

10.4 Senior Executive Incentive Plan effective beginning with the fiscal year ended February 1, 1997 (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q dated September 17, 1996, and incorporated herein by reference).

\*

10.5 Trademark License Agreement between the Company and Levi Strauss & Co. dated as of November 15, 1996 (included as Exhibit 10.5 to the Company's Annual Report on Form 10-K dated May 1, 1997, and incorporated herein by reference).

\*

10.6 Credit Agreement between the Company and BankBoston, N.A. dated as of December 10, 1997 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 5, 1998, and incorporated herein by reference).

\*

10.7 First Amendment to Credit Agreement dated as of January 31, 1998, between the Company and BankBoston, N.A. (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 1, 1998, and incorporated herein by reference).

\*

10.8 Amended and Restated Loan and Security Agreement dated June 4, 1998, between the Company and BankBoston Retail Finance Inc. and the lender(s) named therein (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 15, 1998, and incorporated herein by reference).

\*

10.9 Revolving Credit Note dated June 4, 1998 in favor of BankBoston Retail Finance Inc. (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated June 15, 1998, and incorporated herein by reference).

\*

10.10 Fee Letter dated June 4, 1998, between the Company and BankBoston Retail Finance Inc. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated June 15, 1998, and incorporated herein by reference).

\*

10.11 Participation Agreement among Designs JV Corp. (the "Designs Partner"), the Company, LDJV Inc. (the "LOS Partner"), Levi's Only Stores, Inc. ("LOS"), Levi Strauss & Co. ("LS&CO") and Levi Strauss Associates Inc. ("LSAI") dated January 28, 1995 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).

\*

10.12 Partnership Agreement of The Designs/OLS Partnership (the "OLS Partnership") between the LOS Partner and the Designs Partner dated January 28, 1995 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).

\*

10.13 Glossary executed by the Designs Partner, the Company, the LOS Partner, LOS, LS&CO, LSAI and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).

\*

10.14 Sublicense Agreement between LOS and the LOS Partner dated January 28, 1995 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).

\*

10.15 Sublicense Agreement between the LOS Partner and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).

\*

- 10.16 License Agreement between the Company and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.6 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). \*
- 10.17 Administrative Services Agreement between the Company and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.7 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). \*
- 10.18 Credit Agreement among the Company, LOS and the OLS Partnership dated as of October 1, 1996 (included as Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q dated December 17, 1996, and incorporated herein by reference). \*
- 10.19 First Amendment to Credit Agreement among the Company, LOS and the OLS Partnership dated as of October 29, 1997 (included as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q dated December 16, 1997, and incorporated herein by reference). \*
- 10.20 Asset Purchase Agreement between LOS and the Company relating to the sale of stores located in Minneapolis, Minnesota dated January 28, 1995 (included as Exhibit 10.9 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference). \*
- 10.21 Asset Purchase Agreement among Boston Trading Ltd., Inc., Designs Acquisition Corp., the Company and others dated April 21, 1995 (included as 10.16 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference). \*
- 10.22 Non-Negotiable Promissory Note between the Company and Atlantic Harbor, Inc., formerly known as Boston Trading Ltd., Inc., dated May 2, 1995 (included as 10.17 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference). \*
- 10.23 Employment Agreement dated as of October 16, 1995 between the Company and Joel H. Reichman (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference). \*
- 10.24 Employment Agreement dated as of October 16, 1995 between the Company and Scott N. Semel (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference). \*
- 10.25 Employment Agreement dated as of May 9, 1997 between the Company and Carolyn R. Faulkner (included as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q dated June 17, 1997, and incorporated herein by reference). \*
- 10.26 Employment Agreement dated as of October 16, 1995 between the Company and Mark S. Lisnow (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference). \*
- 10.27 Separation Agreement dated as of February 9, 1998 between the Company and Mark S. Lisnow (included as Exhibit 10.26 to the Company's Annual Report on Form 10-K dated May 1, 1998, and incorporated herein by reference). \*
- 11 Statement re: computation of per share earnings.
- 27 Financial Data Schedules.
- 99 Report of the Company dated May 1, 1998 concerning certain cautionary statements of the Company to be taken into account in conjunction with consideration and review of the Company's publicly-disseminated documents (including oral statements made by others on behalf of the Company) that include forward looking information (included as Exhibit 99 to the Company's Annual Report on Form 10-K dated May 1, 1998 and incorporated herein by reference). \*

\* Previously filed with the Securities and Exchange Commission.

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

DESIGNS, INC.

June 16, 1998

By: /S/ JOEL H. REICHMAN

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Joel H. Reichman  
President and Chief Executive  
Officer



DESIGNS, INC.

1992 STOCK INCENTIVE PLAN, AS AMENDED

SECTION 1. General Purpose Of The Plan; Definitions.

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

The following terms shall be defined as set forth below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## SECTION 2. Administration of Plan; Committee Authority to Select Participants and Determine Awards.

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

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

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

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

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

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

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

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

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

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

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

## SECTION 3. Shares Issuable under the Plan; Mergers; Substitution.

(a) Shares Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 2,430,000. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, canceled, reacquired by the Company, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. Subject to such overall limitation, shares may be issued up to such maximum number pursuant to any type or types of Award, including Incentive Stock Options. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company. No individual participant in the Plan may, during any fiscal year of the Company, be granted one or more Stock Options the sum of which cover more than 75,000 shares of Stock (such amount being subject to adjustment in accordance with Section 3(b) hereof), provided, however, that an individual participant may be granted one or more Stock Options the sum of which cover up to 270,000 shares of Stock (such amount being subject to adjustment in accordance with Section 3(b) hereof) during any fiscal year if all such Stock Options have an exercise price equal to not less than 200% of Fair Market Value on the date of grant.

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

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

#### SECTION 4. Eligibility.

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

#### SECTION 5. Stock Options.

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

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

No Incentive Stock Option shall be granted under the Plan after April 2, 2002.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(C) The Committee shall have sole authority and discretion to determine

whether a participant's employment has been terminated by reason of Disability or Normal Retirement.

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

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

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

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

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

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

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

(i) Grant of Options Upon Election to Board. Each Non-Employee Director who is elected by the stockholders of the Company to the Board initially on or subsequent to the Effective Date of this Plan shall automatically be granted, upon such election, a Non-Qualified Stock Option to purchase 10,000 shares of Stock. Each Non-Employee Director who is re-elected by the stockholders of the Company to the Board on or subsequent to the Effective Date of this Plan shall automatically be granted, upon each such re-election, a Non-Qualified Stock Option to purchase 3,000 shares of Stock.

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

(iii) Exercise; Termination; Non-transferability.

(A) No Option granted under this Section 5(c) may be exercised before the first anniversary of the date upon which it was granted, and 33 1/3% of the Options from any such grant shall become exercisable on such anniversary and on each anniversary of such date thereafter until 100% of such Options become exercisable; subject to the provisions of Section 5(c)(iii)(B), any Option so granted shall be exercisable after the termination of service of the Non-Employee Director, whether because of death, disability or otherwise. No Option issued under this Section 5(c) shall be exercisable after the expiration of ten years from the date upon which such Option is granted.

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

to be a Director.

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

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

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

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

#### SECTION 6. Conditioned Stock Awards.

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

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

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

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

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

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

#### SECTION 7. Unrestricted Stock Awards.

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

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

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

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

#### SECTION 8. Performance Share Awards.

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

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

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

(d) Termination. Except as may otherwise be provided by the Committee at any

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

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

#### SECTION 9. Tax Withholding.

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

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

#### SECTION 10. Transfer, Leave of Absence, Etc.

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

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

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

#### SECTION 11. Amendments and Termination.

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

#### SECTION 12. Status of Plan.

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



### SECTION 13. Change of Control Provisions.

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

(i) Each Stock Option shall automatically become fully exercisable notwithstanding any provision to the contrary hereof.

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

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

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

(i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Act) becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) persons who, as of June 9, 1992, constituted the Company's Board (the "Incumbent Board") cease for any reason, including without limitation as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to June 9, 1992 whose election was approved by, or who was nominated with the approval of, at least a majority of the directors then comprising the Incumbent Board shall, for purposes of this Plan, be considered a member of the Incumbent Board; or

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

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

### SECTION 14. General Provisions.

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

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

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

(c) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to stockholder approval if

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

SECTION 15. Effective Date Of Plan.

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

SECTION 16. Governing Law.

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

Exhibit 11. Statement Re: Computation of Per Share Earnings

	Three Months Ended		Twelve Months Ended	
	May 2, 1998	May 3, 1997	May 2, 1998	May 3, 1997
(In thousands except per share data)				

Basic EPS Computation

Numerator:				
Net income (loss)	\$(3,052)	\$(3,184)	\$(28,931)	\$ 4,225
Denominator:				
Weighted average common shares outstanding	15,733	15,606	15,679	15,720
Basic EPS	\$ (0.19)	\$ (0.20)	\$ (1.85)	\$ 0.27

Diluted EPS Computation

Numerator:				
Net income (loss)	\$(3,052)	\$(3,184)	\$(28,931)	\$ 4,225
Denominator:				
Weighted average common shares outstanding	15,733	15,606	15,679	15,720
Stock options, excluding anti-dilutive options of 56 and 19 shares for the three months ending May 3, 1997 and the twelve months ending May 2, 1998, respectively	---	---	---	71
Total Shares	15,733	15,606	15,679	15,791
Diluted EPS	\$ (0.19)	\$ (0.20)	\$ (1.85)	\$ 0.27

1000

3-MOS

JAN-30-1999  
FEB-01-1998  
MAY-02-1998  
3,758  
0  
214  
0  
56,926  
65,000  
69,868  
37,144  
107,427  
23,618  
0  
0  
160  
79,184  
107,427  
43,400  
43,400  
34,024  
34,024  
14,437  
0  
191  
(5,006)  
1,954  
(3,052)  
0  
0  
0  
(3,052)  
(0.19)  
(0.19)

1000

3-MOS

JAN-31-1998

FEB-02-1997

MAY-03-1997

119

0

467

0

104,112

113,236

76,132

35,281

160,143

46,362

0

0

0

159

107,815

160,143

55,470

55,470

41,984

41,984

18,841

0

151

(5,435)

2,251

(3,184)

0

0

0

(3,184)

(0.20)

(0.20)