SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 1, 1997 (Fiscal 1996) Commission File Number 0-15898

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

DELAWARE	04-2623104
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)
66 B STREET, NEEDHAM, MA	02194
(Address of principal executive offices)	(Zip Code)

(617) 444-7222
(Registrant's telephone number, including area code)

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

NONE

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

COMMON STOCK, $0.01 PAR VALUE
PREFERRED STOCK PURCHASE RIGHTS
(Title of each class)

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

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

The aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant, based on the last sales price of such stock on April 18, 1997 was approximately $75 million.

The registrant had 15,618,643 shares of Common Stock, $0.01 par value, outstanding as of April 18, 1997.

DOCUMENTS INCORPORATED BY REFERENCE

	INCORPORATED DOCUMENT	FORM 10-K REQUIREMENT
PART II		
Item 5	Market for Registrant's Common Equity and Related Shareholder Matters......	Page 34 of the Annual Report to Shareholders for the fiscal year ended February 1, 1997.
Item 6	Selected Financial Data.............	Page 11 of the Annual Report to Shareholders for the fiscal year ended February 1, 1997.
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations.......................	Pages 12 through 17 of the Annual Report to Shareholders for the fiscal year ended February 1, 1997.
Item 8	Financial Statements and Supplementary Data..................	Pages 18 through 30 of the Annual Report to Shareholders for the fiscal year ended February 1, 1997.
PART III		
Item 10	Directors and Executive Officers.....	All information under the caption "Nominees for Director and Executive Officers" in the Company's definitive Proxy Statement which is expected to be filed within 120 days of the end of the fiscal year ended February 1, 1997.
Item 11	Executive Compensation..............	All information under the caption "Executive Compensation" in the Company's definitive Proxy Statement which is expected to be filed within 120 days of the end of the fiscal year ended February 1, 1997.
Item 12	Security Ownership of Certain Beneficial Owners....................	All information under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's definitive Proxy Statement which is expected to be filed within 120 days of the end of the fiscal year ended February 1, 1997.
Item 13	Certain Relationships and Related Transactions.........................	All information under the caption "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement which is expected to be filed within 120 days of the end of the fiscal year ended February 1, 1997.

DESIGNS, INC.

INDEX TO ANNUAL REPORT ON FORM 10-K
YEAR ENDED FEBRUARY 1, 1997

PART I.

ITEM 1. BUSINESS

SUMMARY

Designs, Inc. (the "Company") is a specialty retailer in the United States of quality branded apparel and accessories. The Company markets a broad selection of Levi Strauss & Co. and Boston Traders(R) brand products through predominantly mall-based, first quality stores under the names "DESIGNS" and "BOSTON TRADING CO."; and outlet stores under the names "LEVI'S OUTLET BY DESIGNS" and "BOSTON TRADERS." A subsidiary of the Company also owns a 70% interest in a partnership that operates, as part of a joint venture with a subsidiary of Levi's Only Stores, Inc. ("LOS"), a subsidiary of Levi Strauss & Co., stores under the name "ORIGINAL LEVI'S STORE" and outlet stores under the name "LEVI'S OUTLET," each of which feature men's and women's Levi Strauss & Co. brand products.

The Company makes extensive use of Levi Strauss & Co. brand names, trademarks and trade names in its advertising, signs and store displays, and uses the broad recognition of these Levi Strauss & Co. brand names to generate sales. Management believes that the Levi's(R) and Dockers(R) names are two of the most recognized apparel brand names in the United States and that the Levi's(R) brand name is among the most recognized brand names in the world.

During fiscal 1995, the Company completed the purchase of the Boston Traders(R) brand in order to exclusively own a brand to complement the existing Levi Strauss & Co. brand product lines offered by the Company. The Boston Traders(R) brand, established in 1967, was historically known for its wholesale and retail sales of sweaters and tops for both men and women. The Company intends to feature its private label Boston Traders(R) brand products in its new Boston Trading Co.(SM) stores opened in fiscal 1997. These stores will carry casual sportswear and basic clothing, activewear and performance wear and a limited selection of Levi's(R) brand products. The Company also intends to feature its Traders Collection(R) private label brand in its Designs stores. This new product line is expected to provide the Company with a broader assortment of tops that will complement the Levi Strauss & Co. brands sold in the Company's Designs stores. The addition of the Boston Traders(R) and Traders Collection(R) brands in the Designs stores, and the opening of Boston Trading Co.(SM) stores in fiscal 1997 are expected to increase sales and improve margins, although there are no assurances that the introduction and integration of these brands will be successful or that positive sales and margin results will be generated. In fiscal 1997, the Company plans to open six Boston Trading Co.(SM) stores, five of which were open as of May 1, 1997. Depending on the level of customer acceptance of the Boston Trading Co.(SM) store concept and the Boston Traders(R) brand, the Company plans, barring any unforeseen circumstances, to expand this new specialty retail concept nationally.

STORE FORMATS

Designs stores are located in enclosed regional shopping malls and offer a broad selection of first quality Levi Strauss & Co., Boston Traders(R) and Traders Collection(R) brand merchandise. The new Boston Traders(R) product line was re-introduced into the Designs stores in the fall of 1996 to offer a broader merchandise selection to Designs store customers and increase the proportion of non-Levi's(R) brand product, as requested by Levi Strauss & Co.

In fiscal 1997, the Company will feature the Boston Traders(R) product line in its Boston Trading Co.(SM) stores which are located in upscale malls and an urban location. This store format also carries a limited selection of Levi Strauss & Co. products.

Boston Traders(R) outlet stores, which are located in outlet shopping areas throughout the United States, feature end-of-season Boston Traders(R) and Traders Collection(R) brand product lines from the Designs and Boston Trading Co.(SM) stores.

Levi's(R) Outlet by Designs stores are located in manufacturers' outlet parks and shopping centers. These outlet stores sell manufacturing overruns, discontinued lines and irregulars purchased by the Company directly from Levi Strauss & Co. and its licensees, as well as end-of-season Levi's(R) and Dockers(R) brand merchandise transferred from Designs stores. Levi's(R) Outlet by Designs stores have capitalized on outlet shopping areas specializing in "value" retailing. To date, each Levi's(R) Outlet by Designs store is the only authorized outlet in its shopping area selling exclusively Levi Strauss & Co. brand products.

A subsidiary of the Company participates in a joint venture with a subsidiary of LOS, which operates Original Levi's(R) Stores(TM). See "Expansion Strategy." Original Levi's(R) Stores(TM) are located in upscale malls and urban locations and feature hardwood floors and "video walls" displaying Levi Strauss & Co. advertisements and popular music videos. This format focuses on men's and women's Levi's(R) brand products consisting of core traditional styles such as five pocket and 501(R) jeans, denim jackets, contemporary silverTab(TM) brand tops and bottoms, exclusive merchandise from the Levi's(R) Europe lines and Levi's(R) Personal Pair(TM) individually fitted jeans for women. The joint venture also operates Levi's(R) Outlets stores that sell only Levi's(R) brand products, including end of season and close-out products from Original Levi's(R) Stores(TM).

Management believes that the Company competes effectively with other apparel retailers by offering superior selection, quality merchandise, knowledgeable in-store service and competitive price points. The Company stresses product training with its sales staff and, with the assistance of Levi Strauss & Co. personnel and materials, provides its sales personnel with substantial product knowledge training across the Boston Traders(R), Traders Collection(R), Levi's(R) and Dockers(R) product lines.

EXPANSION STRATEGY

Since its inception in 1976, the Company has grown through the addition of new stores and the modification of its retail formats. The following table provides a summary of the number of stores in operation at year end for the past three fiscal years. With the exception of the Boston Traders(R) outlet stores, Levi Strauss & Co. must approve all new store locations which sell Levi Strauss & Co. brand products.

	FISCAL YEARS ENDED		
	FEBRUARY 1, 1997	FEBRUARY 3, 1996	JANUARY 28, 1995
Designs	44	49	51(2)
Levi's(R) Outlet by Designs	58	58	61
Joint Venture:			
Original Levi's(R) Stores(TM)	11	11	8(3)
Levi's(R) Outlets	10	4	--
Boston Traders(R) outlet stores	27	35(1)	--
Total	150	157	120

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(1) In May 1995, the Company acquired certain assets of Boston Trading Ltd., Inc. including 33 Boston Traders(R) outlet stores.

(2) During fiscal year 1994, the Company closed fifteen Designs stores as part of a restructuring program.

(3) The Company sold one "Original Levi's(R) Store(TM) and two "Dockers(R) Shops" to LOS on January 28, 1995.

On January 28, 1995, Designs JV Corp., a wholly-owned subsidiary of the Company, and a subsidiary of LOS entered into a partnership agreement (the "Partnership Agreement") to engage in the retail sale of 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 OLS Partnership 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 beginning January 2000. The Company previously announced that the OLS Partnership may open up to 35 to 50 Original Levi's(R) Stores(TM) and Levi's(R) Outlets throughout 11 Northeast states and the District of Columbia through the end of fiscal 1999.

In June 1994, Levi Strauss & Co. advised the Company that it did not see any additional growth in the Levi's(R) Outlet by Designs format, other than additional Levi's(R) Outlet stores that may be opened under the OLS Partnership. Levi Strauss & Co. has opened Levi's(R) Outlets and Dockers(R) Outlets through their LOS subsidiary and informed the Company that it did not intend to open these outlets in centers serviced by one of the Company's existing Levi's(R) Outlet by Designs stores. Accordingly, wholly-owned Levi's(R) Outlet by Designs and jointly-owned Levi's(R) Outlet locations continue to be the only authorized retail outlet locations in their respective outlet centers to sell Levi's(R) brand products. The Company does not expect to open additional Levi's(R) Outlet by Designs stores in the future, with the exception of Levi's(R) Outlets that are opened by the OLS Partnership as discussed above.

Present plans are that future growth of the Company will be derived from the opening of new stores that will predominantly feature the Boston Traders(R) brand under the name Boston Trading Co.(SM) as discussed above, and stores opened by the OLS Partnership.

CUSTOMER BASE

The Company's product selection, offered by its various store formats, is designed to satisfy the casual apparel needs of customers in all age groups and income brackets. A substantial portion of the Company's customer base consists of Levi's(R) and Dockers(R) brand customers. A segment of the Company's customer base consists of foreign travelers shopping for Levi Strauss & Co. products. The recent introduction of the Company's private label merchandise allows customers to purchase additional casual apparel with the Boston Traders(R) and Traders Collection(R) brand product lines which are intended to complement the Levi's(R) brand merchandise sold in the Designs and Boston Trading Co.(SM) stores.

MERCHANDISING AND DISTRIBUTION

Through fiscal year 1996, the majority of the assortment focus was on a core selection of traditional Levi's(R) and Dockers(R) brand products. During the third quarter of fiscal 1996, the Company re-introduced the Boston Traders(R) brand product line and a range of Boston Traders(R) brand accessories in the Designs stores. Barring unforeseen circumstances, in the fall of 1997 the Company plans to further distinguish the Boston Traders(R) and Traders Collection(R) brand product lines by offering Boston Traders(R) brand merchandise only in the Boston Trading Co.(SM) stores and Traders Collection(R) brand merchandise only in the Designs stores. Expectations are that the addition of non-Levi Strauss & Co. brands will enable the Designs stores to capitalize on new products either not offered by Levi Strauss & Co. or of which Levi Strauss & Co. sells limited styles. These include classifications such as outerwear, sweaters and knitwear. The Company expects that approximately 30% of the product assortment in Designs stores will come from non-Levi Strauss & Co. sources during fiscal 1997.

In its Levi's(R) Outlet by Designs stores, the Company offers a selection of Levi Strauss & Co. brands of merchandise including manufacturing overruns, discontinued lines and irregulars purchased by the Company directly from Levi Strauss & Co. and end-of-season merchandise transferred from the Designs stores. The Levi's(R) Outlets operated by the OLS Partnership sell only Levi's(R) brand products and service the close-out products of Original Levi's(R) Stores(TM). Due to the limited availability of merchandise sold through the Levi's(R) Outlet stores, the Company continues to evaluate and act upon opportunities to purchase substantial quantities of merchandise. The Boston Traders(R) outlet stores feature end-of-season Boston Traders(R) and Traders Collection(R) brand product lines from the Designs and Boston Trading Co.(SM) stores.

Merchandising in Original Levi's(R) Stores(TM) focuses on men's and women's tops and bottoms under the Levi's(R) brand name, including traditional 501(R), 505(R) and 550(TM) five pocket jeans; contemporary silverTab(TM) bottoms and tops; 560(TM) Loose fitting jeans and Personal Pair(TM) individually fitted jeans for women; denim jackets; a full line of women's jeans; T-shirts; denim shirts; sweat shirts; Levi's(R) brand shorts; and coordinating accessories. Many styles are unique to the Original Levi's(R) Store(TM), and are, except for Original Levi's(R) Stores(TM) operated by LOS, not available at any other retail store in the United States.

All merchandising decisions, including pricing, markdowns, advertising and promotional campaigns, inventory purchases and merchandise allocations, are made centrally at the Company's headquarters with input from field operations personnel.

Prior to the acquisition of the Boston Traders(R) brand, the Company's stores were stocked by "direct to store" vendor shipments and transfers from other stores. After this acquisition, the Company expanded much of its infrastructure to support a vertically integrated private label business. This expansion involved the establishment of product development, sourcing and logistics teams. The Company operates a product development office in New York City which conceptualizes, designs and sources the Company's private label merchandise. The Company imports a substantial portion of its private label merchandise. In fiscal 1996, the Company utilized the services of buying agents and approximately 20 third party manufacturers to produce such merchandise. In addition, the Company contracted with third-party warehouses to provide storage and distribution capacity to move the Boston Traders(R) brand merchandise. The Company will continue to develop its product design, sourcing, import and logistics capabilities as well as management information systems and training programs to support this infrastructure.

During the fiscal year ended February 1, 1997, sales by store format, by product category were as follows:

				OLS PARTNERSHIP		
CATEGORY	DESIGNS	LEVI'S(R) OUTLET BY DESIGNS	BOSTON TRADERS(R) OUTLET	ORIGINAL LEVI'S(R) STORES()TM	LEVI'S(R) OUTLET	TOTAL COMPANY
Men's...................	69%	68%	72%	61%	68%	68%
Women's.................	27%	18%	19%	31%	25%	24%
Youth...................	1%	7%	--	7%	4%	3%
Accessories.............	3%	7%	9%	7%	3%	5%

TRADEMARKS

The Company is the owner of the "Boston Traders" and "Traders Collection" trademarks and certain other trademarks acquired as part of the acquisition of certain assets of Boston Trading Ltd., Inc.

"501," "505," "Dockers" and "Levi's" are registered trademarks, and "550," "560," "silverTab," "Original Levi's(R) Store" and "Personal Pair" are trademarks of Levi Strauss & Co.

STORE OPERATIONS

The Company currently employs four Divisional Vice Presidents, all of whom have over 15 years of service with the Company. Each Divisional Vice President is solely responsible for the operations and profitability of their respective business divisions which include Levi's(R) Outlet by Designs, Designs, Boston Trading Co.(SM) and Boston Traders(R) Outlet. In addition, in 1994 a General Manager was hired to manage the stores currently operated by the OLS Partnership. The OLS Partnership also has one Regional Manager who is responsible for the operations of all joint venture stores.

At February 1, 1997, the Company employed 19 district managers, having an average employment period of seven years, to provide management development and guidance to individual store managers. The Company also employed five district manager candidates at February 1, 1997. Each district manager is responsible for hiring and developing store managers at the stores assigned to that district manager's geographic area and for the overall profitability of those stores. District managers report directly to a Divisional Vice President, who reports directly to the Company's President and Chief Executive Officer.

Designs stores average approximately 6,200 square feet in size and are located in enclosed regional shopping malls usually anchored by department stores. Levi's(R) Outlet by Designs stores are located in manufacturers' outlet parks and range in size from approximately 8,000 to 19,600 square feet. Similarly located, the Boston Traders(R) outlet stores range in size from 2,000 to 6,500 square feet. Original Levi's(R) Stores(TM), having both mall-based and urban locations, range in size from 4,000 to 15,300 square feet. Levi's(R) Outlet stores, operated by the OLS Partnership, are located in outlet parks selling exclusively Levi Strauss & Co. brand products. These Levi's(R) Outlet stores range in size from 5,600 to 8,000 square feet.

The Company's stores utilize centrally developed interior design and merchandise layout plans specifically designed to promote customer identification of the store as a specialty store selling quality branded apparel and accessories including Levi Strauss & Co., Boston Traders(R), and Traders Collection(R) brand products. The merchandise layout is further customized by store management and the Company's visual merchandising department to suit each particular store location. Designs stores display Traders Collection(R), Levi's(R) and Dockers(R) logos and utilize distinctive promotional displays; the Levi's(R) Outlet stores display Levi Strauss & Co. brand logos and distinctive displays; Original Levi's(R) Stores(TM) also feature a "video wall" presentation developed to promote an upscale image of the men's and women's Levi's(R) brand products sold in those stores. Each Boston Trading Co.(SM) store features an interactive kiosk and an array of 18 video monitors of varying sizes which present active scenes. The Company uses Levi Strauss & Co. logos and trademarks on store signs with the permission of Levi Strauss & Co.

CUSTOMER SERVICE AND TRAINING

Providing outstanding customer service is the most important responsibility of all of the Company's associates. Sales associate expectations regarding service and salesmanship are established during orientation training sessions developed by the Company's Training and Operational Support team. This training program, and other associate development programs are conducted at the Company's home office through its "Designs University" educational program established in fiscal 1996. The primary focus of the customer service programs conducted by Designs University is to teach all associates that nothing is of greater importance than satisfying the customer.

The Company's training programs also stress product awareness. The Company's Training and Operational Support team provides associates in each store format with substantial product knowledge and training across the Boston Traders(R) and Traders Collection(R) and (with the assistance of Levi Strauss & Co.) Levi Strauss & Co. brand product lines. This training includes instruction on how to promote sales and coordinate apparel and accessories. Management believes that sales associates accomplish the important goals of reinforcing the customer's perception of the Company's stores as branded specialty stores and of differentiating its stores from those of the Company's competitors.

Each Designs, Boston Trading Co.(SM) and Boston Traders(R) outlet stores employ approximately 5-15 associates. Each Levi's(R) Outlet stores and Original Levi's(R) Store(TM) location employs approximately 15-45 associates. Store personnel usually include one store manager, one or more assistant managers and shift supervisors and a team of full-time and part-time sales associates. Depending on the location, a store manager candidate or assistant manager candidate may also be included in the team. The store management team is responsible for all operational matters in the store, including day to day hiring and the training of sales associates.

All members of store management participate in the Store Management Development Program developed by the Training and Operational Support Department. Participants learn how to perform all the management functions required to successfully run a store. These programs also focus on basic operation procedures, merchandising and visual merchandising, and personnel management, respectively. The quarterly programs conducted by Designs University are focused on leadership, education, motivation and team building.

INFORMATION SYSTEMS

The Company believes that management information systems are an important factor in the continued growth of the Company. The Company continues to devote significant resources to the development of information systems which are intended to enable the Company to centrally maintain inventory, pricing and other financial controls. During the first quarter of fiscal 1996, the Company began to convert its merchandise management software to a new system and installed a new merchandising software package. This software is designed to enhance the analytical capabilities of the Company's merchandise and financial functions and to provide an integrated business approach to its financial and merchandising systems. The process of converting to new merchandising software and the related training of merchandising and financial associates to operate the new systems is expected to continue through fiscal 1997. During the second quarter of fiscal 1996, the

Company replaced its point-of-sale devices with in store computer terminals which perform several store operations, inventory and administrative functions. This store-based equipment is linked to the Company's central processing system.

The Company makes use of software systems for enhanced merchandise replenishment. The merchandise replenishment systems are automated allocation and planning tools designed for apparel retailers and are used to allocate in the private label environment of ever-changing styles. These systems also allow the Company's merchandise allocation staff to utilize available sales and inventory data to react to the individual needs of each store on a timely basis.

The Company utilizes a computer-aided design system in its New York City product development office to automate certain merchandise design and production functions.

ADVERTISING

The Company benefits from the high visibility and recognition of the Levi's(R) and Dockers(R) brand names, as well as the natural flow of traffic that results from locating stores in areas of high retail activity including large regional malls, destination outlet centers and high traffic inner city shopping districts. Historically, the Company has received co-operative advertising allowances from Levi Strauss & Co. that typically fund a substantial portion of the Company's advertising expenditures. In fiscal 1996, the Company received allowances totaling approximately 17% of its advertising expenditures. The co-operative advertising allowances associated with the Company's advertising are expected to fluctuate in proportion to amounts of Levi Strauss & Co. brand products purchased and Levi Strauss & Co.'s co-operative advertising policies.

In the fourth quarter of fiscal 1996, the Company retained the services of an independent advertising agency to assist the Company with advertising and promotion of its Boston Trading Co.(SM) store format. The Company used television and radio commercials to promote the opening of Boston Trading Co.(SM) stores in the markets where these stores are located. The Company anticipates increased expenses associated with the advertising and marketing of its Boston Trading Co.(SM) stores and its private label brands in the future.

COMPETITION

The United States casual apparel market is highly competitive with many national and regional department stores, specialty apparel retailers and discount stores offering a broad range of apparel products similar to those sold by the Company. The Company's competitors in the casual apparel market consist of national and regional department stores in the Company's market areas, such as J.C. Penney Company, Sears, Roebuck & Company, Dillard Department Stores Inc., May Company, Kohls, Macy's and Filene's. In addition, the Company competes with several specialty apparel retailers, including The GAP, Inc., The Limited, Inc. and County Seat Stores, Inc.

EMPLOYEES

As of February 1, 1997, the Company and the OLS Partnership employed approximately 2,690 associates, of whom 2,480 were full-time and part-time sales personnel and 210 were employed at the Company's headquarters and its New York product design office. The Company and the OLS Partnership hire additional temporary employees during the peak late summer and holiday seasons.

All full-time employees are entitled, when eligible, to life, medical, disability and dental insurance and to participate in the Company's 401(k) retirement savings plan. Store managers, district managers and divisional vice presidents are eligible to receive incentive compensation subject to the achievement of specific performance objectives measured by return on net assets and profitability. In addition, store and district managers are eligible to receive incentive compensation based on quarterly sales and payroll objectives. Vice Presidents and district managers are also entitled to use an automobile provided by the

Company or to receive an automobile allowance. Sales personnel are compensated on an hourly basis and, generally, receive no commissions but are eligible to earn, from time to time, incentive prizes as part of individual store's sales contests. Vice Presidents, certain district and store managers and certain other employees, have been granted stock options. Management believes that the Company's practice of promoting from within has led to a lower than average rate of employee turnover. None of the Company's employees are represented by a union.

RISKS AND UNCERTAINTIES

The Company filed a Current Report on Form 8-K, dated April 22, 1997, which identifies certain risks and uncertainties that may have an impact on the future earnings and direction of the Company.

ITEM 2. PROPERTIES

As of February 1, 1997, the Company operated 44 Designs stores, 58 Levi's(R) Outlet by Designs stores, 27 Boston Traders(R) outlet stores, 11 Original Levi's(R) Stores)TM) and 10 Levi's(R) Outlets. All such stores, with the exception of joint venture stores, are leased by the Company directly from shopping mall, outlet park and urban property owners. The 11 Original Levi's(R) Stores(TM) and ten Levi's(R) Outlets are leased directly by the OLS Partnership. Designs store and Original Levi's(R) Store(TM) leases are generally ten years in length with no renewal option. Outlet store leases are usually for a series of shorter periods and certain leases contain renewal options extending their terms to between 10 and 15 years. The leases for Boston Trading Co.(SM) stores which opened after February 1, 1997, have terms between 7 and 10 years. Most of the Company's leases provide for annual rent based on a percentage of store sales, subject to guaranteed minimum amounts.

In April 1996, the Company moved its headquarters to Needham, Massachusetts. The lease for the headquarters office, which began in November 1995, is for ten years. The lease provides for the Company to pay all occupancy costs associated with the land and the headquarters building.

The Company utilizes third-party warehouse facilities to receive and distribute Boston Traders(R), Traders Collection(R) and Levi Strauss & Co. brand products.

Sites for store expansion are selected on the basis of several factors intended to maximize the exposure of each store to the Company's target customers. These factors include the demographic profile of the area in which the site is located, the types of stores and other retailers in the area, the location of the store within the mall and the attractiveness of the store layout. The Company believes that its selection of locations enables the Company's mall, urban and outlet stores to attract customers from the general shopping traffic and to generate its own customers from the surrounding areas.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of fiscal 1996 to a vote of security holders, through the solicitation of proxies or otherwise.

PART II.

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The information required by this item is furnished by incorporation by reference to Page 34 of the Annual Report to Shareholders for the year ended February 1, 1997.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is furnished by incorporation by reference to Page 11 of the Annual Report to Shareholders for the year ended February 1, 1997.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is furnished by incorporation by reference to Pages 12 through 17 of the Annual Report to Shareholders for the year ended February 1, 1997.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is furnished by incorporation by reference to Pages 18 through 30 of the Annual Report to Shareholders for the year ended February 1, 1997.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to directors and executive officers of the Company is incorporated herein by reference to the Company's definitive proxy statement expected to be filed within 120 days of the end of the fiscal year ended February 1, 1997.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is incorporated herein by reference to the Company's definitive proxy statement expected to be filed within 120 days of the end of the fiscal year ended February 1, 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the Company's definitive proxy statement expected to be filed within 120 days of the end of the fiscal year ended February 1, 1997.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is incorporated by reference to the Company's definitive proxy statement to be filed within 120 days of the fiscal year ended February 1, 1997.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) 1. & 2. CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

The financial statements and schedules listed in the index below are filed as part of this annual report.

1. CONSOLIDATED FINANCIAL STATEMENTS

2. CONSOLIDATED FINANCIAL STATEMENT SCHEDULES:

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

3. EXHIBITS

3.1	Restated Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1 to Amendment No. 3 of the Company's Registration Statement on Form S-1 (No. 33-13402), and incorporated herein by reference).	*
3.2	Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated June 22, 1993 (included as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q dated June 17, 1996, and incorporated herein by reference).	*
3.3	Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of the Company establishing Series A Junior Participating Cumulative Preferred Stock dated May 1, 1995 (included as Exhibit 3.2 to the Company's Annual Report on Form 10-K dated May 1, 1996, and incorporated herein by reference).	*
3.4	By-Laws of the Company, as amended (included as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated December 12, 1995, and incorporated herein by reference).	*
4.1	Shareholder Rights Agreement dated as of May 1, 1995 between the Company and its transfer agent (included as Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 1, 1995, and incorporated herein by reference).	*
10.1	1987 Incentive Stock Option Plan, as amended (included as Exhibit 10.1 to the Company's Annual Report on Form 10-K dated April 29, 1993, and incorporated herein by reference).	*
10.2	1987 Non-Qualified Stock Option Plan, as amended (included as Exhibit 10.2 to the Company's Annual Report on Form 10-K dated April 29, 1993, and incorporated by herein by reference).	*
10.3	1992 Stock Incentive Plan, as amended (included as Exhibit A to the Company's definitive proxy statement dated May 10, 1994, and incorporated by reference).	*

10.4	Senior Executive Incentive Plan effective beginning with the fiscal year ended February 1, 1997 (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q dated September 17, 1996, and incorporated herein by reference).	*
10.5	Trademark License Agreement between the Company and Levi Strauss & Co. dated as of November 15, 1996.	
10.6	Amended and Restated Credit Agreement among the Company, BayBank, N.A., and State Street Bank and Trust Company dated as of July 24, 1996 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 7, 1996, and incorporated herein by reference).	*
10.7	Consulting Agreement between the Company and Stanley I. Berger dated December 21, 1994 (included as Exhibit 10.7 to the Company's Annual Report on Form 10-K dated April 28, 1995, and incorporated herein by reference).	*
10.8	Participation Agreement among Designs JV Corp.(the "Designs Partner"), the Company, LDJV Inc. (the "LOS Partner"), Levi's Only Stores, Inc. ("LOS"), Levi Strauss & Co. ("LS&CO") and Levi Strauss Associates Inc. ("LSAI") dated January 28, 1995 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.9	Partnership Agreement of The Designs/OLS Partnership (the "OLS Partnership") between the LOS Partner and the Designs Partner dated January 28, 1995 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.10	Glossary executed by the Designs Partner, the Company, the LOS Partner, LOS, LS&CO, LSAI and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.11	Sublicense Agreement between LOS and the LOS Partner dated January 28, 1995 (included as Exhibit 10.4 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.12	Sublicense Agreement between the LOS Partner and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.5 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.13	License Agreement between the Company and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.6 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.14	Administrative Services Agreement between the Company and the OLS Partnership dated January 28, 1995 (included as Exhibit 10.7 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.15	Credit Agreement among the Company, LOS and the OLS Partnership dated as of October 1, 1996 (included as Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q dated December 17, 1996, and incorporated herein by reference).	*
10.16	Asset Purchase Agreement between LOS and the Company relating to the sale of stores located in Minneapolis, Minnesota dated January 28, 1995 (included as Exhibit 10.9 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.17	Asset Purchase Agreement between LOS and the Company relating to the sale of a store located in Cambridge Massachusetts dated January 28, 1995 (included as Exhibit 10.10 to the Company's Current Report on Form 8-K dated April 24, 1995, and incorporated herein by reference).	*
10.18	Asset Purchase Agreement among Boston Trading Ltd., Inc., Designs Acquisition Corp., the Company and others dated April 21, 1995 (included as 10.16 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference).	*

10.19	Non-Negotiable Promissory Note between the Company and Atlantic Harbor, Inc., formerly known as Boston Trading Ltd., Inc., dated May 2, 1995 (included as 10.17 to the Company's Quarterly Report on Form 10-Q dated September 12, 1995, and incorporated herein by reference).	*
10.20	Employment Agreement dated as of October 16, 1995 between the Company and Joel H. Reichman (included as Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference).	*
10.21	Employment Agreement dated as of October 16, 1995 between the Company and Scott N. Semel (included as Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference).	*
10.22	Employment Agreement dated as of October 16, 1995 between the Company and Mark S. Lisnow (included as Exhibit 10.3 to the Company's Current Report on Form 8-K dated December 6, 1995, and incorporated herein by reference).	*
10.23	Employment Separation Agreement dated as of August 7, 1996 between the Company and William D. Richins (included as Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q dated September 17, 1996, and incorporated herein by reference).	*
11	Statement re: computation of per share earnings.	
13	Annual Report to Shareholders for the fiscal year ended February 1, 1997 (with the exception of the information incorporated by reference included in Items 5, 6, 7 and 8, the Annual Report to Shareholders for the fiscal year ended February 1, 1997 is not deemed filed as part of this report).	
21	Subsidiaries of the Registrant.	
23	Consent of Coopers & Lybrand, L.L.P. dated May 1, 1997.	
27	Financial Data Schedule.	
99	Report of the Company dated April 22, 1997 concerning certain cautionary statements of the Company to be taken into account in conjunction with consideration and review of the Company's publicly-disseminated documents (including oral statements made by others on behalf of the Company) that include forward looking information.	

* Previously filed with the Securities and Exchange Commission.

(b) REPORTS ON FORM 8-K:

(i) The Company reported under Item 5 on Form 8-K dated April 22, 1997, certain cautionary statements of the Company to be taken into account in conjunction with the 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.

SIGNATURES

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

DESIGNS, INC.

BY: /s/ JOEL H. REICHMAN

JOEL H. REICHMAN
President and Chief Executive Officer

May 1, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company in the capacities indicated, on May 1, 1997.

SIGNATURES	
/s/ JOEL H. REICHMAN JOEL H. REICHMAN	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ CAROLYN R. FAULKNER CAROLYN R. FAULKNER	Vice President and Chief Financial Officer (Principal Accounting Officer)
/s/ STANLEY I. BERGER STANLEY I. BERGER	Chairman of the Board and Director
/s/ JAMES G. GRONINGER JAMES G. GRONINGER	Director
/s/ MELVIN I. SHAPIRO MELVIN I. SHAPIRO	Director
/s/ BERNARD M. MANUEL BERNARD M. MANUEL	Director
/s/ PETER L. THIGPEN PETER L. THIGPEN	Director

TRADEMARK LICENSE AGREEMENT

This Agreement is made as of this 15 day of November, 1996 by and between LEVI STRAUSS & CO., a Delaware corporation, with its principal office at Levi's Plaza, 1155 Battery Street, San Francisco, California 94111 (hereinafter "LICENSOR") and DESIGNS, INC., a Delaware company, with its principal office at 66 B Street, Needham, Massachusetts, 02194, (hereinafter "LICENSEE").

WHEREAS, LICENSOR has, since 1850, been a major producer of apparel and related products in the United States and elsewhere and owns certain valuable trademarks in the United States; and

WHEREAS, LICENSEE is the owner of certain retail outlet stores operating under the "Levi's Outlet by Designs" name through which it sells exclusively closeouts, seconds and irregular apparel and related products which have been manufactured by LICENSOR or by third parties under license from and/or on behalf of LICENSOR; and

WHEREAS, LICENSEE has been selling such products in such stores subject to oral and written license agreements including without limitation an agreement effective as of November 1, 1991 (the "1991 Agreement") which are now being terminated and replaced hereby with respect to the STORES listed in Exhibit E. The other retail stores currently operating under the 1991 agreement will continue to be subject to that agreement; and

WHEREAS, the parties now wish to set forth their written agreement on the terms of such license for LICENSEE's existing and future outlet stores operating under the "Levi's Outlet" name;

NOW, THEREFORE, for good and valuable consideration, including without limitation the mutual promises set forth below, the parties agree as follows:

1. Grant of License.

a. LICENSOR grants to LICENSEE subject to Article 1(e) hereof an exclusive, royalty-free license to use the Levi's(R) "Housemark" trademark in the form shown in Exhibit A which has been registered in the United States Patent and Trademark Office having Registration Numbers 849,437; 1,122,468; 1,041,846 and 1,155,926 respectively (hereinafter "the LICENSED MARK") in combination with "Outlet by DESIGNS." as shown in Exhibit B within the territory described in Exhibit C (the "TERRITORY") in connection with the sale of closeouts, seconds, first quality end-of-season transfers from Designs stores and/or joint venture stores and irregulars of apparel and related products manufactured by LICENSOR or by third parties under license from and/or on behalf of LICENSOR (the "PRODUCTS") on exterior signage, interior signage, stationery, receipts and PRODUCT tags in retail outlets which have been individually pre-approved by LICENSOR as listed in Exhibit E hereto, as such exhibit may be amended by the parties from time to time, (the "STORES") and which are devoted exclusively to the sale of such PRODUCTS. LICENSEE may delete a retail outlet from Exhibit E by notice to LICENSOR. Exhibit E shall be amended to add a retail outlet only by written agreement of the parties. The said license is limited to the said STORES operating at the locations set forth in Exhibit E, and is not transferable to any other store without LICENSOR'S prior written consent.

b. This Agreement does not grant LICENSEE any rights in any other trademarks, trade names or other proprietary rights of LICENSOR. Nothing in this Agreement, however, limits any rights of LICENSEE, under such other agreements or licenses as may exist from time to time, to use the LICENSED MARK standing alone, or other appropriate trademarks of LICENSOR, in the same fashion as permitted for use by other retailers authorized by LICENSOR in conjunction with the promotion of LICENSOR's products, which fashion is consistent with LICENSOR's policies and guidelines.

c. The combination forms of the LICENSED MARK and LICENSEE'S tradename and mark "OUTLET BY DESIGNS". shown in Exhibit B are collectively referred to as the "COMBINATION MARKS". Although the tradename and mark "OUTLET BY DESIGNS" is incorporated in the permitted combination forms, and must appear in any usage of the COMBINATION MARKS by LICENSEE, LICENSOR neither claims nor shall obtain any rights with respect to such terms.

d. The licenses granted herein constitute both a right and an obligation to use the COMBINATION MARKS only in the manner specified herein in conjunction with the sale of the PRODUCTS through the STORES.

e. LICENSOR reserves the right to use the LICENSED MARK with or without the word "Outlet" in connection with retail stores operated by LICENSOR within the TERRITORY during the term of this Agreement.

2. Use of COMBINATION MARKS. LICENSEE shall use the COMBINATION MARKS as follows:

a. LICENSEE shall prominently display the COMBINATION MARKS in one of the formats attached hereto as Exhibit B, and only in such format, when referring to the STORES, including on exterior STORE signage, interior STORE signage, stationery, receipts and PRODUCT tags. The COMBINATION MARKS shall be used in conformance with LICENSOR's written policies and guidelines. In the event that LICENSEE's lease restrictions or other factors require LICENSEE's use of the COMBINATION MARKS which is at variance with the formats shown on Exhibit B or the license granted herein, LICENSEE must obtain

LICENSOR'S prior written consent to any such variance. All existing signage approved by LICENSOR under the 1991 Agreement is deemed to conform to LICENSOR's polices and guidelines as of the date of this Agreement.

b. LICENSEE shall sell the PRODUCTS and no other products in the STORES.

c. LICENSEE shall not advertise the existence of STORES or their business except that LICENSEE may advertise on billboards designed to promote all retail outlet establishments within the mall in which the STORES are located, which billboards shall be located within five (5) miles of any such mall and shall advertise at least one other brand as well as the COMBINATION MARKS. LICENSEE shall also be permitted to advertise the STORES using flyers and in local newspapers.

3. Exclusivity.

a. LICENSOR shall not grant licenses to third parties to use the LICENSED MARK in connection with the sale of the PRODUCTS in the TERRITORY.

b. The licenses granted herein require LICENSEE to operate the STORES exclusively as outlets for the PRODUCTS. LICENSEE is expressly prohibited from using the COMBINATION MARKS (i) in stores which offer products from manufacturers other than or in addition to LICENSOR and (ii) in stores not devoted exclusively to selling the PRODUCTS. No COMBINATION MARK may be used hereunder in conjunction with the sale of first quality or in-season goods, except as otherwise permitted under Section 1 hereof.

4. Modifications of COMBINATION MARKS.

LICENSEE understands and agrees that the prior written approval of the LICENSOR is required if LICENSEE proposes to change in any respect the formats shown in Exhibit B or any materials authorized under Section 2; and LICENSEE agrees not to use any altered version of such signage or materials without LICENSOR's prior written approval. Any violation of this Section shall be deemed to constitute a material breach and default of this Agreement, subject to the provisions of paragraph 9c. hereof.

5. Point of Sale Notification. LICENSEE shall display a notice to its customers which conforms substantially to the form of notice set forth in Exhibit D. Such notice shall be prominently displayed in the interior of each STORE at all points of sale in a manner which clearly and conspicuously (i) notifies customers about the kinds of PRODUCTS sold (i.e., closeouts, seconds and irregulars manufactured exclusively by or on behalf of LICENSOR); (ii) defines the terms "closeout", "seconds" and "irregulars" so that customers understand the quality of the merchandise offered for sale; and (iii) gives the identity of the company leasing and operating the STORE (i.e., LICENSEE, not LICENSOR) and the fact that LICENSEE, not LICENSOR, assumes all liabilities associated with the PRODUCTS and services offered by the STORE, except for liabilities based on damage or injury caused by the PRODUCTS, taking into account the fact that such PRODUCTS are closeouts, seconds, irregular apparel and related products. All merchandise offered for sale in the STORES shall be appropriately labeled as closeouts, seconds or irregulars respectively.

6. Other Point of Sale Material. LICENSOR may provide LICENSEE with additional point of sale displays bearing the COMBINATION MARKS. LICENSEE may also display its own point of sale materials bearing the COMBINATION MARKS, provided that such materials conform to LICENSOR's guidelines for displaying

such materials or, if LICENSEE has not been provided with such guidelines, then subject to LICENSOR's prior written approval and quality control over the display and use of such materials, which approval shall not be unreasonably withheld or delayed.

7. Right of Inspection. LICENSOR shall have the right during regular business hours, at its own expense, to inspect any LICENSEE facility whereon or wherein the COMBINATION MARKS are displayed for the purpose of enabling LICENSOR to determine whether LICENSEE is adhering to the requirements of this Agreement.

8. Authorized Outlets. LICENSEE has provided LICENSOR with a list of all locations at which the LICENSED MARKS are currently being used and their related lease expiration dates and renewal options. Such list is attached hereto as Exhibit E and upon execution of this Agreement, those locations shall become STORES subject to the terms of this Agreement. Upon request by LICENSEE during the term of this Agreement, additional STORES may be approved by LICENSOR on a case-by-case basis in LICENSOR's sole discretion. Such approval shall be in writing and the additional STORES shall be added to this Agreement only by amending Exhibit E.

9. Term, and Termination.

a. The term of this Agreement shall commence upon execution by both parties and shall expire July 31, 2001 ("the EXPIRATION DATE"). Notwithstanding the foregoing, the license for any STORE shall be for a period co-terminous with the lease term (including options) set forth in Exhibit E, unless otherwise expressly stated in the said Exhibit E, and shall terminate upon expiration of the said lease term. If either party wishes to renew this

Agreement the said party shall give notice to the other party not less than 180 (one hundred eighty) days before the EXPIRATION DATE and the parties shall meet within 90 (ninety) days after the date of the said notice to discuss renewal. Nothing in this Agreement shall oblige either party to renew this Agreement on any terms.

b. If at any time LICENSOR or LICENSEE shall (i) become bankrupt; (ii) take advantage of any state or federal insolvency law; (iii) liquidate its business; (iv) cease to function as a going concern; (v) fail to pay its debts as they come due; or (vi) make any assignment for the benefit of creditors, the other party, as the case may be, shall have the right to terminate this Agreement forthwith.

c. If either party shall cause or permit any material breach or default of this Agreement, the other party shall have the right to terminate this Agreement by written notice to the party causing or permitting the breach or default, and said termination shall be effective one hundred and twenty (120) days after the giving of such notice, unless prior thereto the party receiving said notice cures such breach or default. The rights and remedies provided in this Section shall not be exhaustive and are in addition to any other rights and remedies provided by law.

d. Any material breach or default committed by LICENSEE with respect to any STORE shall be deemed a material breach or default giving rise to LICENSOR's right to terminate the Agreement with respect to all STORES, subject to the opportunity to cure such breach pursuant to paragraph 9c hereof.

e. Upon termination of this Agreement for any reason, LICENSEE shall immediately cease and thereafter refrain from all use of the LICENSED

MARKS and shall remove or dispose of all retail outlet STORE signage and other materials utilizing the said LICENSED MARKS.

f. Upon termination of the licenses granted herein with respect to any STORE, LICENSEE shall cease and thereafter refrain from using the LICENSED MARKS with respect to such STORE and shall remove or dispose of all retail outlet store signage for such STORE utilizing the said LICENSED MARKS.

10. Fictitious Names. If LICENSEE is required to file a statement of fictitious name in a state where it is using the COMBINATION MARKS on signage on its STORES, LICENSEE shall promptly so inform LICENSOR in writing.

11. LICENSEE's Representations and Warranties.

a. LICENSEE will affirmatively and conspicuously display in all its STORES the representation that LICENSEE, not LICENSOR, owns and operates the STORES and that the relationship between LICENSOR and LICENSEE is that of a manufacturer and an independent retailer of the PRODUCTS.

b. LICENSEE represents and warrants that its promotion and sale of the PRODUCTS in the STORES and its performance of this Agreement will be in full compliance with fair business practices and all applicable laws and regulations of the TERRITORY and the United States.

12. LICENSEE's Indemnification.

a. LICENSEE agrees to defend, indemnify and hold LICENSOR harmless against any damages, liabilities and expenses LICENSOR may suffer, including reasonable attorneys' fees and costs of suit, arising from any breach of any agreement, representation or warranty given herein or from LICENSEE's business activities, including without limitation, from claims based on personal injury and property damage occurring within or around the STORES and unauthorized activities with regard to LICENSEE's use of the COMBINATION MARKS. The foregoing notwithstanding, LICENSEE's indemnification does not extend to liabilities based upon the quality, safety or other properties of the PRODUCTS, taking into account the fact that such PRODUCTS are closeouts, seconds, irregular apparel and related products, or upon a claim of trademark infringement where such infringement arises out of LICENSEE's use of the COMBINATION MARKS as permitted hereunder.

b. LICENSEE's obligation to indemnify shall not be effective unless LICENSOR gives LICENSEE prompt notice of any claim which might trigger such obligation and affords LICENSEE the opportunity to assume the defense thereof. LICENSEE's obligation to indemnify shall not be effective in the event that LICENSOR settles such claim without first obtaining LICENSEE's consent thereto.

13. LICENSOR's Representations and Warranties.

a. LICENSOR represents and warrants (i) subject only to Section 1. c. and to other license agreements with third parties, that it owns all right, title and interest in and to the LICENSED MARKS; and (ii) that it has the full power and authority to grant LICENSEE the rights and licenses granted herein.

b. LICENSOR represents and warrants that its performance of this Agreement will be in full compliance with all applicable laws and regulations of the TERRITORY and the United States.

14. LICENSOR's Indemnification.

a. LICENSOR agrees to defend, indemnify and hold LICENSEE harmless against any damages, liabilities and expenses LICENSEE may suffer, including reasonable attorneys' fees and costs of suit, arising from a claim that the LICENSED MARKS used apart from or incorporated in the COMBINATION MARK infringe the trademark rights of a third party within the TERRITORY; except to the extent such claim results directly or indirectly, in whole or in part, from some unauthorized action or activity by LICENSEE with respect to the LICENSED MARK that is not authorized by LICENSOR.

b. LICENSOR's obligation to indemnify shall not be effective unless LICENSEE gives LICENSOR prompt notice of any claim which might trigger such obligation and affords LICENSOR the opportunity to assume the defense thereof. LICENSOR's obligation to indemnify shall not be effective in the event that LICENSEE settles such claim without first obtaining LICENSOR's consent thereto.

15. Rights in LICENSED MARK.

LICENSEE recognizes that there is great value to LICENSOR in the LICENSED MARK and the goodwill associated therewith. LICENSEE agrees that nothing contained in this Agreement or in any prior agreement or in any prior conduct of LICENSOR or LICENSEE gives LICENSEE any interest or property rights in the LICENSED MARK or in any other mark or trade name of LICENSOR except the right to use the LICENSED MARK as specifically set forth herein. LICENSEE agrees that all uses by LICENSEE of the LICENSED MARK shall inure to the benefit of LICENSOR. Except for the rights expressly granted herein, LICENSEE agrees that it will not, during the term of this Agreement or thereafter, directly or indirectly, assert any interest in, right of use or other rights in the LICENSED MARK or in any other mark or in any trade name of LICENSOR. LICENSEE agrees to assist LICENSOR in all reasonable respects requested by LICENSOR, and at LICENSOR's expense, in the establishment, renewal, protection and enforcement of LICENSOR's rights in the LICENSED MARK. LICENSOR acknowledges that all rights to trademarks "Designs" and "Outlet by Designs" are the property of LICENSEE and agrees not to adopt or attempt to register the said marks or any trademark confusingly similar thereto.

16. Terms Governing Purchase and Transfer of Merchandise.

a. PRODUCTS may be purchased directly from LICENSOR or from stores owned by third parties who are approved by LICENSOR on a case-by-case basis, which approval shall not be unreasonably withheld or delayed. Terms of such purchases from LICENSOR shall be negotiated separately and in writing by LICENSEE and LICENSOR.

b. LICENSEE acknowledges that its access to PRODUCTS for STORES shall be strictly on an "as available" basis; and nothing in this Agreement or any other agreement between LICENSOR and LICENSEE shall be deemed to constitute a guarantee of such availability.

c. LICENSEE warrants that it will dispose of its own closeouts of LICENSOR's products by transferring them from its first quality stores or any other retail store in which LICENSEE has a controlling interest or is a joint venturer to its STORES licensed hereunder.

17. Injunctive Relief. Any breach by LICENSEE of this Agreement which involves LICENSEE's misuse of the LICENSED MARK would result in irreparable injury to LICENSOR and therefore, in addition to all other remedies provided at law or in equity, including, without limitation, remedies provided under The Uniform Trade Secret Act, California Civil Code Sections 3426 et. seq., LICENSOR shall be entitled to seek a temporary restraining order and a permanent injunction to prevent the continuance of such breach. No notice shall be required in order to obtain such injunctive relief. In the event that LICENSOR seeks an injunction hereunder, LICENSEE hereby waives any requirement that LICENSOR post a bond or any other security. LICENSEE shall likewise be entitled to seek a temporary restraining order and a permanent injunction in accordance with all the provisions of this paragraph 17, if LICENSOR misuses LICENSEE'S trademarks "Designs" or "Outlet by Designs."

18. No Assignment or Sublicense. LICENSEE may not assign, sublicense or otherwise transfer any of its rights or obligations hereunder absent the prior written approval of LICENSOR. For purpose of this Section , an assignment, sublicense or other transfer shall include: (i) any direct or indirect assignment, sublicense or other transfer, in whole or in part, of any of LICENSEE's rights or obligations under this Agreement, (ii) any direct or indirect transfer of any of the assets with which the COMBINATION MARKS are being used (including the STORES or their leases but excluding disposal of obsolete signage and displays in the ordinary course of business), (iii) any direct or indirect transfer of control of LICENSEE, or (iv) any transfer of any interest, direct or indirect, in LICENSEE or its assets, to a competitor of LICENSOR (provided that the ordinary purchase of LICENSEE's shares in a publicly-traded market for such shares, if any, shall not constitute a sale to a competitor for purposes of this Section 18(iv)). Any attempt to assign, sublicense or otherwise transfer any of LICENSEE's rights or obligations

without the prior written consent of LICENSOR shall be void and shall be deemed to be a material breach of this Agreement.

19. Notices. All demands and requests required or permitted by this Agreement shall be given in writing and delivered by U.S. mail or overnight courier, postage prepaid. All such notices shall be deemed effective upon deposit in the U.S. mail or upon delivery to an overnight courier. All such notices shall be addressed as follows:

if to LICENSOR:

Levi Strauss & Co.
Levi's Plaza
1155 Battery Street
San Francisco, California 94111
Attention: Vice President, Customer Relations

with a copy to:

General Counsel
1155 Battery Street
San Francisco, California 94111

if to LICENSEE:

Vice-President & General Counsel
DESIGNS, INC.
66 B Street
Needham, Massachusetts, 02194

with a copy to:

President
DESIGNS, INC.
66 B Street
Needham, Massachusetts, 02194

20. No Agency. Nothing in this Agreement shall be construed so as to constitute either party the agent, partner or joint venturer of or with the other for any purpose whatsoever. Neither party shall have the right or authority to pledge the credit of or to represent itself as agent of or as authorized to assume or create any obligation of any kind, expressed or implied on behalf of the other party in any respect whatsoever. At all times, LICENSEE shall maintain such notices and make other arrangements in its STORES as may be reasonably necessary to enable its customers to understand that the STORES are owned and operated by LICENSEE, not LICENSOR.

21. Governing Law; Jurisdiction. The validity, construction, performance, enforcement, termination and effect of this Agreement shall be governed by and construed under and in accordance with the laws of the State of California applicable to agreements made and to be wholly performed therein. The parties irrevocably consent to the non-exclusive jurisdiction of the state courts of California and of any federal courts located in the Northern District of California and in Massachusetts, in connection with any action or proceeding respecting this Agreement or the rights and obligations set forth herein.

22. Severability. Should any part or provision of this Agreement be held unenforceable or in conflict with applicable law, such part or provision shall be severed from this Agreement in such jurisdiction to the extent necessary to make this Agreement enforceable and the validity of the remaining parts or provisions shall remain in full force and effect. Additionally, in such event the parties shall discuss such changes as may be necessary to preserve the original intent of this Agreement and if the parties cannot agree on changes within 30 days, then either party shall have the option to terminate this Agreement by notice to the other.

23. Entire Agreement. This Agreement constitutes the sole and entire understanding between the parties relating to the use of the COMBINATION MARKS and it replaces any prior agreement, whether written, oral, express, implied or derived from conduct between the parties relating thereto.

24. Amendment of Agreement. This Agreement may not be amended, altered or modified except in writing signed by both of the parties hereto.

25. Binding Effect. Except as herein otherwise specifically provided, this Agreement shall be binding upon and inure to the benefit of the parties and their legal representatives, heirs, administrators, executors, successors and assigns.

26. Waiver. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by law.

27. Survival. The terms of Sections 9(e), 9(f), 12(a), 12(b), 14(a), 15, 17, 19, 21, 22, 23, and 24 shall survive the termination of this Agreement and shall continue to bind the parties thereafter.

IN WITNESS WHEREOF, the parties have executed this Agreement by their respective officers hereunto duly authorized as of the day and year first above written.

LEVI STRAUSS & CO.	DESIGNS, INC.
By: /s/ Thomas A. Fanoe	By: /s/ Joel H. Reichman
Its: Vice President, Customer Relations U.S.	Its: President

Exhibit 11. Statement Re: Computation of Per Share Earnings

	Fiscal Year Ended		
	February 1, 1997	February 3, 1996	January 28, 1995
	(In thousands, except per share data)		
Net Income	$ 6,264	$ 9,773	$16,903
Weighted average shares outstanding during the period	15,775	15,770	15,914
Common equivalent shares	*	*	*
Number of shares for purposes of calculating net income per common and common equivalent share	15,775	15,770	15,914
Net income per common and common equivalent share	$0.40	$0.62	$1.06

* Less than 3% dilutive

[DESIGNS, INC. LOGO]

Annual Report 1996

[LOGO]
Annual Report 1996

(year ended february 1, 1997)

Designs, Inc. is a specialty retailer that provides internationally recognized, quality branded merchandise in a manner which creates a shopping experience that satisfies our target customers' casual lifestyle requirements.

The company accomplishes this through channels of distribution aimed at our customers, in an environment that optimizes our associates' and shareholders' satisfaction and is consistent with our corporate values.

Based in Needham, Massachusetts, Designs, Inc. opened its first Designs store in 1977, selling exclusively Levi Strauss & Co. apparel and accessories.

In 1995, Designs, Inc. began a joint venture partnership with Levi Strauss & Co. to own and operate retail stores throughout 11 northeast states and the District of Columbia, further strengthening the long-standing relationship between the two companies. Designs, Inc. purchased the Boston Traders(R) brand in May 1995 to establish the company as a vertically integrated retailer with an exclusive private label brand. To showcase the Boston Traders(R) merchandise and to establish it as a leading consumer brand, the first Boston Trading Co.(SM) stores were opened in February 1997.

The company operates 154 retail and outlet stores located throughout the United States in enclosed regional shopping malls, urban locations and outlet centers.

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[PHOTO: JOEL H. REICHMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF DESIGNS, INC.]

JOEL H. REICHMAN
President and Chief Executive Officer

TO OUR SHAREHOLDERS & VALUED DESIGNS ASSOCIATES

Last year I told you about our plans for the evolution of our company. Although I am disappointed with our results for 1996, I am confident that we did accomplish a number of our strategic goals as we continued to prepare our company for the future. This year, we made progress towards the execution of a vertical strategy for the Boston Traders(R) brand as we carefully managed all aspects of our business.

We implemented our strategic goal of designing and producing our own Boston Traders(R) brand clothing and accessories while continuing our strategic alliance with Levi Strauss & Co. and our strong Levi's(R) and Dockers(R) brand based businesses.

It has been over two years since we first set out to acquire and develop our own brand. Our first challenge was to acquire or develop a brand that would appropriately supplement the highly regarded Levi Strauss & Co. brands we have sold since Designs was founded in 1976. After a long search, we acquired the established Boston Traders(R) brand and began to assemble a team of experienced merchandising, design and product development professionals to update the brand. To begin building a private label brand we have had to conceptualize, design, produce, distribute, market and sell a new product which many of our customers have not seen before. The task is complex and has challenged us to develop new skills in a highly competitive marketplace. We first began to test the new Boston Traders(R) apparel with our Designs store customers in Fall of 1996 and have incorporated customer feedback from that test into our product offerings for 1997.

Our primary objective for fiscal 1997 is to focus on the aggressive execution of our strategies, with the goal of producing comparable store sales growth, further testing the Boston Trading Co.(SM) concept, building the Boston Traders(R) brand and improving our earnings performance. We will also continue to focus on producing additional cost savings from operational improvements and enhanced efficiencies in key areas of our business.

I want to take this opportunity to explain to you some of the key elements of our strategy for fiscal 1997. Our merchandising strategy is to consistently deliver superior product to our customers in each of these formats. Our merchandise mix and price points are tailored to reach the target customer in each of our retail formats. Each of our formats focuses on a different customer who wants something special.

[PHOTO: BOSTON TRADING CO.(SM) STORE, ATLANTA, GEORGIA, VIEW OF STORE FRONT]

[PHOTO: BOSTON TRADING CO.(SM) STORE, ATLANTA, GEORGIA, VIEW OF INTERIOR OF STORE]

BOSTON TRADING CO.(SM)
Atlanta, Georgia

[PHOTO: ORIGINAL LEVI'S(R) STORE(TM), 3 EAST 57TH STREET, NEW YORK, NEW YORK VIEW OF STORE FRONT]

[PHOTO: ORIGINAL LEVI'S(R) STORE(TM), 3 EAST 57TH STREET, NEW YORK, NEW YORK VIEW OF INTERIOR OF STORE]

ORIGINAL LEVI'S(R) STORE(TM)
New York, New York

Our Designs stores are located in regional malls with a middle market customer base. The Designs store customer is looking for the high quality, basic styling, comfort and value offered by our Levi's(R) and Dockers(R) brand tops and bottoms and Traders Collection(R) tops. These customers want the quality, value and excellent customer service for which our Designs stores are known. We have over 20 years of experience with the Levi's(R) brand and have developed our Traders Collection(R) line of tops to complement the strengths of the Levi's(R) and Dockers(R) brands in these stores. This year, we learned a great deal more about the likes and dislikes of our Designs store customers. As a result, we have made substantial changes in the product mix and clothing designed for these stores in 1997.

Our Original Levi's(R) Stores(TM) are located in major regional malls and in New York City, Boston and Washington, DC. Our Original Levi's(R) Store(TM) customer wants the latest and most fashion forward styles of Levi's(R) brand jeans and tops in the broadest selection available. Our customers and our product mix vary between our urban or mall locations. In New York City and Boston our customers are often foreign tourists attracted by the authentic American Levi's(R) brand. The Original Levi's(R) Store(TM) mall customer is typically young and fashion conscious.

Our Boston Trading Co.(SM) stores and the clothes in these stores were designed by a team charged with giving our customer a real alternative to the sameness of specialty retail in this country. Working as a team, our product designers, merchants and a respected retail store designer with a proven track record for creating innovative, entertaining and exciting new store concepts, developed this new store concept. Boston Trading Co.(SM) stores are located in urban and upscale premier mall locations in major metropolitan and suburban shopping areas. Boston Trading Co.(SM) incorporates, in one store, three different elements of clothing: casual sportswear, which includes modern classics-classics with a twist; activewear, which people only wore to the gym in the 1970's and began to wear beyond the gym in the 1980's; and performance wear, technical fabrics and specific functional products for active sports participation. Our customer needs and wants all three of these elements in clothing. They do not think of these elements as three different styles or categories, but they mix them and incorporate them as one style of dress with an overarching sense of casual, easy and active.

[PHOTO: LEVI'S(R) OUTLET BY DESIGNS STORE, FREEPORT, MAINE, VIEW OF STORE FRONT]

[PHOTO: LEVI'S(R) OUTLET BY DESIGNS STORE, FREEPORT, MAINE, VIEW OF INTERIOR OF STORE]

LEVI'S(R) OUTLET by DESIGNS
Freeport, Maine

Although in its infancy, I am pleased to report that our Boston Traders(R) licensee in Japan has opened its first Boston Trading Co.(SM) shop, featuring Boston Traders(R) brand clothing, in the city of Senri. They currently plan to open more shops over the next year. Our Taiwanese licensee has opened its first Boston Trading Co.(SM) shop in the city of Tainan and will open another in the Sogo department store in the city of Taipei. We are looking forward to exploring additional opportunities in licensing in other countries next year.

Outlet store shoppers want brands at a value. We strive to provide them with a quality branded product at prices which make the trip to the outlet "worth it." Operating ten Levi's(R) Outlet stores under the joint venture partnership with a subsidiary of Levi Strauss & Co. and 58 owned and operated Levi's(R) Outlet by Designs stores, the Levi's(R) Outlet stores will continue to offer exclusively Levi Strauss & Co. brands at an excellent value. By offering our Levi's(R) Outlet by Designs customers a complete Levi's(R) and Dockers(R) brand casual wardrobe that consistently provides them with quality,selection and value, we continue to satisfy the needs of the outlet shopper. Boston Traders(R) outlets will carry end-of-season Boston Traders(R) and Traders Collection(R) brands which have been transferred from our Designs and Boston Trading Co.(SM) stores.

We will continue to review our overall real estate strategy for all of our divisions and we will make necessary adjustments depending on marketplace opportunities and individual business needs. We will strive to improve all of our retail formats to provide our customers with a productive, enjoyable shopping experience, offering them the best in customer service.

[PHOTO: DESIGNS' SENIOR MANAGEMENT TEAM, JOEL H. REICHMAN, MARK S. LISNOW, SCOTT N. SEMEL, CAROLYN R. FAULKNER]

JOEL H. REICHMAN, MARK S. LISNOW,
SCOTT N. SEMEL, CAROLYN R. FAULKNER
Designs' Senior Management Team

As part of our ongoing strategy of continuous improvement, this year we reviewed every functional area of your company and upgraded or made changes to meet not only our current needs, but those that lie ahead. We have created a merchant-driven organization to consistently deliver quality, selection and value to our customers season after season.

To complement the merchandising and product development teams, we realigned our field and store operations functions from a structure based on geographic territories to one based on divisions, each of which operates all of the stores in the same retail format. This approach recognizes the uniqueness of each retail format and the need for a store concept focused approach to conducting our business. In

[PHOTO: DESIGNS STORE, ATTLEBORO, MASSACHUSETTS, VIEW OF INTERIOR OF STORE]

[PHOTO: DESIGNS STORE, ATTLEBORO, MASSACHUSETTS, VIEW OF STORE FRONT]

DESIGNS
Attleboro, Massachusetts

addition, we updated our information systems hardware and merchandise management software in our corporate offices and installed a new point-of-sale register system in all of our stores to improve the collection of customer information at the point of sale. We also established education and training facilities for the centralized training of our store and office associates, as well as a model store workshop for our product and visual merchandising teams to formulate visual merchandising formats, fixtures and designs for our stores. Our infrastructure investments are designed to leverage information technology and overhead functions across all of our store divisions.

These are just a few of the profound structural and people changes happening throughout the business. As a result, we are well positioned to capitalize on the changing retail environment. Throughout this transformation we operated profitably, as we continued to manage our business and control related overhead expenses. Net income for fiscal 1996 equaled $6.3 million, or $0.40 per share, compared with the prior year's net income of $9.8 million, or $0.62 per share.

Having the right merchandise mix with highly regarded consumer brand names, powerful store formats and locations, and the people and systems to implement our corporate strategy are all critical elements on the road to success. We know that we have the ingredients that we need to reach our goals, ensure the continued profitable contribution of our stores and plan for future growth.

First and foremost we strive to attain customer satisfaction with our merchandise, service and ease in shopping. Satisfied customers who come back to our stores time and time again are critical to our success as a specialty retailer. We routinely conduct customer satisfaction surveys and market studies to maintain contact with our customers. We listen to our customers and respond to their needs and suggestions. This approach always has been and will remain a hallmark of Designs' commitment to its customers.

Designs, Inc. is a company built on energy and enthusiasm. Each associate at Designs strives to generate excitement, satisfaction and loyalty for everyone who has a stake in the company: our shareholders, customers, fellow associates, communities and business partners. This is an exciting time for us as we work together to establish our own brand, offer customers the casual apparel they want and provide them with a pleasing and rewarding shopping experience. If we do these things well, we are confident that we will create productive, profitable growth and generate a return to our shareholders. Our commitment to establish our company and our stores as a leading retailer of quality branded merchandise, as well as to create opportunity and strengthen the long-term performance of our company, is unwavering.

[PHOTO: BOSTON TRADERS(R) OUTLET STORE, GURNEE, ILLINOIS,
VIEW OF INTERIOR OF STORE]

[PHOTO: BOSTON TRADERS(R) OUTLET STORE, GURNEE, ILLINOIS,
VIEW OF STORE FRONT]

BOSTON TRADERS(R) OUTLET
Gurnee, Illinois

Designs is achieving an exciting transformation, one that dictates significant change and growth. In such times of change, it is essential to maintain and preserve a company's values and culture. For Designs, Inc. this means that all of our plans must be accomplished in an environment that exhibits: dedication to service and a superior work ethic; a commitment to honesty, fairness and trustworthiness; a balance between work and family; and support and respect for one another. Above all, it should be an atmosphere that encourages fellowship and fun.

As always, we encourage our associates to think creatively and strive for excellence. Our continued success depends upon it. We always have believed that setting the highest standards for quality and innovation will reap the greatest rewards for all of us--shareholders, customers and associates. We are in the midst of this process and appreciate your loyalty and continued support as we take the steps required to move us forward. We will continue to build for the future, guided by our values and long term goals.

Sincerely,

/s/ Joel H. Reichman

Joel H. Reichman
President and Chief Executive Officer
April 18, 1997

THE YEAR IN REVIEW

In April, Designs, Inc. moved and expanded its corporate offices, relocating to Needham, Massachusetts, to support the company's growing and evolving needs.

In May, Designs, Inc. introduced the Designs, Inc. Shareholder Information Line in order to provide shareholders with a timely and convenient way to access the company's most recent financial information and major news developments, including sales and earnings releases.

The first Fall offering of the Boston Traders(R) product lines arrived in the Designs stores during the month of July. Inspired by sports, nature, technology and active lifestyles, the Boston Traders(R) brand clothes offer the customer comfortable, multifunctional "wear now" casual clothing.

Effective July 15, Carolyn R. Faulkner was promoted to the position of Chief Financial Officer.

During the third and fourth quarters, the company repurchased an additional 280,900 shares of stock under its stock repurchase program. To date, a total of 580,900 shares have been repurchased. The program authorizes the company to repurchase up to two million shares from time to time in open market transactions.

In November, Designs, Inc. hired the New York City-based marketing and advertising firm Mad Dogs & Englishmen to deliver the Boston Traders(R) brand message to our target customer. In conjunction with the Boston Traders(R) brand advertising campaign, the company announced plans to open a new store format called Boston Trading Co.(SM) to showcase the new Boston Traders(R) brand product lines.

Effective February 1997, Designs, Inc. reorganized its field and store operations by store format and business segment, thus implementing a single store concept management approach to conducting its business. The expected benefits are twofold: to more effectively address the demands of a vertically integrated retail operation; and to better serve the needs of the company's stores and customers.

In February 1997, the company opened the first three of its new Boston Trading Co.(SM) stores.

SELECTED FINANCIAL DATA

(In Thousands, Except Per Share and Operating Data)	February 1, 1997	February 3, 1996	January 28, 1995	January 29, 1994	January 30, 1993
	Fiscal Years Ended(1)				
INCOME STATEMENT DATA:					
Sales	$289,593	$301,074	$265,910	$240,925	$204,329
Gross profit, net of occupancy costs	86,229	89,085	84,126	75,221	65,465
Pre-tax income	10,859	16,940(2)	28,399(2)	9,507(3)	20,587
Net Income	6,264	9,773	16,903	5,748	12,320
Earnings per share(4)	$ 0.40	$ 0.62	$ 1.06	$ 0.36	$ 0.84
Weighted average common and common equivalent shares outstanding(4)	15,755	15,770	15,914	15,916	14,666
Balance Sheet Data:					
Working capital	$ 72,320	$ 64,557	$ 55,725	$ 35,671(3)	$ 55,913
Inventories	79,958	58,008	52,649	46,664	42,578
Property and equipment, net	39,216	36,083	26,503	22,922	20,747
Total assets	141,760	132,649	127,295	119,556	102,465
Long-term debt(5)	1,000	1,000	--	10,000	13,000
Shareholders' equity	111,045	106,085	95,702	81,183	102,503
Operating Data:					
Net sales per square foot	$ 234	$ 265	$ 256	$ 265	$ 248
Number of stores open at fiscal year end	150	157(6)	120(7)	120	110

(1) The Company's fiscal year is a 52 or 53 week period ending on the Saturday closest to January 31. The fiscal year ended February 3, 1996 covered 53 weeks.

(2) Includes $2.2 million and $3.2 million of non-recurring income related to the fiscal 1993 restructuring program recognized in the fiscal years ended February 3, 1996 and January 28, 1995, respectively.

(3) Includes $15.0 million restructuring charge.

(4) Adjusted to give retroactive effect to two 50% stock dividends paid on June 22, 1993 and June 1, 1992 to holders of Common Stock at the close of business on June 8, 1993 and April 21, 1992, respectively.

(5) Includes current portion of long-term debt. Fiscal 1996 and fiscal 1995 include the $1 million promissory note issued in conjunction with the acquisition of certain assets of Boston Trading Ltd., Inc. on May 2, 1995.

(6) Includes the 33 Boston Traders(R) outlet stores which were acquired as part of the Boston Trading Ltd., Inc. acquisition.

(7) Excludes the two Dockers(R) Shops and one Original Levi's(R) Store(TM) in Cambridge, Massachusetts and Minneapolis, Minnesota, which were sold on January 28, 1995 as well as the fifteen Designs stores which were closed in connection with the restructuring program.

MANAGEMENT'S DISCUSSION & ANALYSIS
OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

The following table provides a five-year history of the total sales results of the Company, together with a summary of the number of stores in operation and the change in comparable store sales. In fiscal 1996, comparable stores were those stores open for at least one full fiscal year. In prior fiscal years, comparable stores were those stores open for at least one full fiscal year as of the beginning of the fiscal year.

	Fiscal Years Ended (1)				
	February 1, 1997 (Fiscal 1996)	February 3, 1996 (Fiscal 1995)	January 28, 1995 (Fiscal 1994)	January 29, 1994 (Fiscal 1993)	January 30, 1993 (Fiscal 1992)
Total Sales ($000's)	$ 289,593	$ 301,074	$ 265,910	$ 240,925	$ 204,329
Number of stores in operation at end of the fiscal year:					
Store Type					
Designs	44	49	51	64	64
Levi's(R) Outlets by Designs	58	58	61	48	41
Boston Traders(R) outlets	27	35	--	--	--
Joint Venture (2):					
Original Levi's(R) Stores(TM)	11	11	8	8	5
Levi's(R) Outlet stores	10	4			
Total stores	150	157	120	120	110
Comparable stores	142	97	91	102	97
Changes in total sales	(4%)	13%	10%	18%	35%
Changes in comparable store sales	(5%)	0.5%	(5%)	6%	26%

(1) The Company's fiscal year is a 52 or 53 week period ending on the Saturday closest to January 31. The fiscal year ended February 3, 1996 covered 53 weeks. Comparable store sales for fiscal 1996 were based upon 52 week comparisons.

(2) Until January 28, 1995, the eight then existing Original Levi's(R) Stores(TM) were 100% owned by the Company. See discussion of joint venture below.

RESULTS OF OPERATIONS

Sales

Sales for fiscal 1996 were $289.6 million, a decrease of 4%, compared with fiscal 1995 sales of $301.1 million. Sales for fiscal 1995 increased by 13.2% to $301.1 million compared with fiscal 1994 sales of $265.9 million. There were 53 weeks in fiscal 1995 and 52 weeks in each of fiscal 1996 and 1994. The decrease in sales in fiscal 1996 as compared to fiscal 1995 was due to a 5% decrease in comparable store sales, 15 store closings and a 52 versus 53 week fiscal year, partially offset by sales from new stores that were opened during the fiscal year. Comparable store sales decreases in Designs stores and Boston Traders(R) outlet stores were due in part to the performance of Boston Traders(R) brand products and to decreases in Levi's(R) brand product inventory levels in the Designs stores related to the introduction of Boston Traders(R) brand products. Sales were also adversely affected by lower than planned inventory levels in the Levi's(R) Outlet by Designs stores during the first half of the fiscal year.

Gross Margin

Gross margin rate (including the costs of occupancy) equaled 29.8% of sales for fiscal 1996, 29.6% in fiscal 1995 and 31.6% in fiscal 1994. The increase in fiscal 1996 as compared to fiscal 1995 was primarily attributable to a 1.2 percentage point increase in merchandise margins as a result of increased initial margins, partially offset by markdowns associated with Boston Traders(R) brand products and a $391,000 provision for LIFO. Gross margin rate was also adversely affected by a one percent increase in occupancy costs due to the effect of a lower sales base compared to the prior year. The decrease in fiscal 1995 of 2.0 percentage points as compared to fiscal 1994 was primarily attributable to a 1.3 percentage point decrease in merchandise margins as a result of increased promotional activities associated with the competitive retail environment, partially offset by a $924,000 benefit for LIFO. In addition, there was an increase in occupancy costs of 0.7 percentage points. The Company continually reviews its inventory levels in order to identify slow-moving merchandise and records markdowns to clear such merchandise.

Selling, General and Administrative

Selling, general and administrative expenses as a percentage of sales increased to 22.8% or $65.9 million in fiscal 1996, from 22.2% of sales or $67.0 million in fiscal 1995. Selling, general and administrative expenses for fiscal 1996 included costs incurred to design, source and distribute Boston Traders(R) brand products totaling $5.1 million, or 1.8% of sales. Selling, general and administrative expenses incurred to design, source and distribute Boston Traders(R) brand products in fiscal 1995 totaled $2.5 million, or 0.8% of sales. Continued management of expenses such as store payroll, advertising and store supplies in fiscal 1996 partially offset costs associated with the development of the Boston Traders(R) brand. The Company anticipates that advertising expenses will increase in connection with the promotion of the Boston Trading Co.(SM) store format. Selling, general and administrative expenses as a percentage of sales were 22.2% in fiscal 1995 as compared to 19.9% in fiscal 1994. The increase was primarily attributable to infrastructure expenses incurred in fiscal 1995 associated with the development of the Boston Traders(R) brand. This increase was offset by one half of a percentage point decrease in store payroll. Selling, general and administrative expenses in fiscal 1994 included increased advertising costs attributed to enhanced corporate marketing efforts. Increases were partially offset by a $1.0 million gain recognized in 1994 related to the sale of the Company's Original Levi's(R) Store(TM) in Minneapolis, Minnesota, and the Company's two Dockers(R) Shops located in Minneapolis, Minnesota and Cambridge Massachusetts. In addition, Levi's Only Stores, Inc. paid the Company $875,000 for services, contributions, and risks taken by the Company for its assistance in the development of the Original Levi's(R) Store(TM) concept in the United States. A substantial portion of this amount was offset by previously recognized costs which were incurred by the Company during fiscal 1994.

Restructuring

In fiscal 1993, the Company recorded a non-recurring pre-tax charge of $15.0 million to cover the costs associated with the closing of 15 of its poorest performing Designs stores. Total costs to close these 15 stores totaled $9.6 million, which was less than the original pre-tax $15.0 million estimate, primarily due to favorable negotiations with landlords. The remaining reserve was recognized in fiscal 1995 and fiscal 1994 as non-recurring pre-tax income in the amounts of $2.2 million and $3.2 million, respectively.

Depreciation and Amortization

Depreciation and amortization expense for fiscal year 1996 increased to $10.4 million from $8.8 million in fiscal 1995 and $6.9 million in fiscal 1994, primarily due to capital expenditures associated with new and remodeled stores, the Company's new corporate offices and the upgrade of information and technology systems. "See Liquidity and Capital Resources--Capital Expenditures."

Interest Expense

Interest expense for fiscal 1996 was $197,000 compared to $196,000 in fiscal 1995 and $609,000 in 1994. The Company anticipates that interest expense will increase in fiscal 1997 as a result of borrowings under the Company's credit facility. The decrease from fiscal 1994 to 1995 was primarily attributable to interest cost savings associated with the prepayment of $6.0 million in the first quarter of fiscal year 1994 and the retirement of the remaining $4.0 million of the Company's 1989 Senior Notes in the second quarter of fiscal 1994. Fiscal 1994 interest expense also included a prepayment penalty and accelerated write-off of debt issuance cost of approximately $350,000 related to the prepayment.

Interest Income

Interest income for fiscal 1996 decreased to $1.2 million from $1.6 million in fiscal 1995 and $1.5 million in fiscal 1994. The decrease of $425,000 in fiscal 1996 was primarily attributable to lower investment balances as compared to the prior year. The Company anticipates that interest income will continue to decline in fiscal 1997 reflecting further declines in investment balances. The increase in interest income in fiscal 1995 as compared to 1994 was primarily attributable to improved interest rates. See "Liquidity and Capital Resources."

Net Income

Net income for fiscal 1996 was $6.3 million, or $0.40 per share compared with $9.8 million, or $0.62 per share, in fiscal 1995 and $16.9 million, or $1.06 per share, in fiscal 1994. Fiscal 1995 and 1994 include income related to the 1993 restructuring, as discussed above, of $2.2 million, or $0.08 per share, and $3.2 million, or $0.12 per share, respectively. In fiscal 1994, the Company also recognized non-recurring pre-tax income of $1.0 million, or $0.04 per share, related to the sale of certain stores, as discussed above under "Selling, General and Administrative."

MANAGEMENT'S DISCUSSION & ANALYSIS
OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

SEASONALITY

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

(Sales Dollars in Thousands)	Fiscal 1996		Fiscal 1995		Fiscal 1994	
First quarter	$ 59,336	20.5%	$ 57,337	19.0%	$ 48,960	18.4%
Second quarter	66,524	23.0%	66,993	22.3%	56,390	21.2%
Third quarter	84,958	29.3%	89,217	29.6%	80,755	30.4%
Fourth quarter	78,775	27.2%	87,527	29.1%	79,805	30.0%
	$289,593	100.0%	$301,074	100.0%	$265,910	100.0%

LIQUIDITY AND CAPITAL RESOURCES

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

In June 1994, Levi Strauss & Co. informed the Company that it wanted to focus the future relationship between the two companies on the Original Levi's(R) Stores(TM) joint venture and to reduce the Company's dependency on Levi Strauss & Co. brands. Levi Strauss & Co. informed the Company that it did not see a growth opportunity for the Company's Designs stores in the exclusively Levi's(R) format. However, Levi Strauss & Co. informed the Company that it did see an opportunity for growth of the Company's Designs stores if the format was changed to a multi-brand format. Levi Strauss & Co. advised the Company that it believed that this would avoid customer confusion between the Original Levi's(R) Stores(TM) and Designs stores. According to Levi Strauss & Co., this would require that not more than 70% of the product mix in the Designs stores be Levi Strauss & Co. product, that the format and presentation of the stores be "supportive" of its marketing and brand objectives and that Levi Strauss & Co. approve that format beforehand. If the Company does change the format and expand the Designs store chain, Levi Strauss & Co. said that it will require that the Company's existing Designs stores be converted to the new multi-brand format in a mutually agreeable period of time.

In the second quarter of fiscal 1995 the Company acquired certain assets of Boston Trading Ltd., Inc. ("Boston Trading"). This acquisition was completed so that the Company would own an existing brand and accelerate the transformation into a company with the capacity to produce a vertically integrated product line. Late in fiscal 1995, a team was assembled to design, source and distribute the Boston Traders(R) brand product. In the fall of 1996, the Boston Traders(R) brand product lines were reintroduced in the Designs stores. The continuing costs associated with supporting the growth of the Boston Traders(R) brand product line were approximately $5.1 million in fiscal 1996. In fiscal 1997, the Company plans to open six specialty stores under the name Boston Trading Co.(SM) which will predominantly feature Boston Traders(R) brand products. Five of such stores were open as of May 1, 1997. Depending upon the level of customer acceptance of the brand, the Company plans, barring any unforeseen circumstances, to expand this concept nationally. Since the Boston Trading Co.(SM) stores will carry certain Levis(R) brand products, the Company believes that Levi Strauss & Co. will apply the same new branch opening policies and practices to the Company's expansion of this new store format that are applicable to other retailers of Levi Strauss & Co. products.

WORKING CAPITAL AND CASH FLOWS

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

	Fiscal Years		
(Dollars in Thousands)	1996	1995	1994
Cash provided by operations	$ (2,145)	$ 10,770	$ 20,818
Working Capital	72,320	64,557	55,725
Current Ratio	4.0:1	4.3:1	3.1:1

To date, the Company has financed its working capital requirements and expansion program with cash flow from operations, borrowings and proceeds from Common Stock offerings. Cash (used in) provided by operating activities was ($2.1) million, $10.8 million and $20.8 million in fiscal 1996, 1995, and 1994, respectively. The Company's reduced cash flow from operations in fiscal 1996 reflects an increase in inventory purchases due to the timing of payment for Spring 1997 Boston Traders(R) brand products and increased inventory levels in the Levi's(R) Outlet stores, as well as the timing of other working capital accounts.

At February 1, 1997, the Company had cash and investments totaling $9.3 million. Subsequent to February 1, 1997, the Company borrowed under its credit facility and was in a net borrowing position, expending such funds for operations. The following table provides a comparative analysis of the Company's cash and investments at the end of fiscal 1996 and fiscal 1995.

	February 1, 1997 (Fiscal 1996)	February 3, 1996 (Fiscal 1995)
Cash and cash equivalents	$ 3,390	$13,941
Short-term investments	5,887	5,978
Long-term investments	--	6,050
Total cash and investments	$ 9,277	$25,969

Short-term investments of $5.9 million at February 1, 1997 consisted of government securities with a weighted average maturity of approximately 1.7 years and a weighted average interest rate of 5.33%. These investments were sold subsequent to the end of fiscal 1996 for a realized loss of $102,300. Long-term investments of $6.1 million at the end of fiscal 1995 consisted of government securities with a weighted average maturity of 2.7 years and a weighted average interest rate of 5.1%.

At February 1, 1997, total inventories increased 38% or $22 million as compared to February 3, 1996. This increase is primarily attributable to special purchases for the Levi's(R) Outlet stores for Spring 1997, the opening of new Levi's(R) Outlet stores by the joint venture and the receipt of Spring 1997 Boston Traders(R) brand products, combined with slower than expected sales of Boston Traders(R) brand 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 by Designs stores.

During fiscal 1996, the Company's payment structure began to change as the Company's percentage of inventory purchases of Boston Traders(R) brand product increased. The Boston Traders(R) brand product requires the Company to source its own product predominantly with various offshore vendors. To date, payment to these vendors has been through the use of letters of credit, which require payment upon presentation of shipping documents. The Company anticipates that the use of this payment method will be proportional to its Boston Traders(R) brand product purchases. Conversely, payments to Levi Strauss & Co., the Company's principal vendor, are due 30 days after invoice.

On July 24, 1996, the Company entered into an amended and restated credit agreement (the "Credit Agreement") with BayBank, N.A. and State Street Bank and Trust Company under which these banks established a credit facility for the Company. This credit facility, which terminates on June 30, 1999, consists of: (i) a revolving line of credit permitting the Company to borrow up to $15 million, and (ii) a commercial and trade letters of credit facility under which letters of credit, in aggregate amounts up to $45 million, may be issued for the Company's inventory purchases. Under the revolving line of credit portion of the facility, the Company has the ability to issue standby letters of credit up to $750,000. Loans made under this portion of the facility bear interest, subject to adjustment, at BayBank, N.A.'s prime rate or LIBOR-based fixed rate. The Company may increase the commercial and trade letters of credit portion of the facility in increments of $15 million up to a total of $45 million. The terms of the Credit Agreement require the Company to maintain specific net worth, inventory turnover and cash flow ratios. At February 1, 1997, the Company had outstanding commercial and trade letters of credit totaling approximately $9.7 million.

During the third quarter of fiscal 1994, the Company's Board of Directors authorized the repurchase of up to two million shares of the Company's Common Stock. During fiscal 1996, the Company repurchased and held in treasury 280,900 shares at a cost of $1.8 million. In fiscal 1994, the Company repurchased and retired 300,000 shares at a cost of $2.3 million. The retirement of shares in fiscal 1994 was reflected as a reduction in Common Stock and Additional Paid-In Capital.

MANAGEMENT'S DISCUSSION & ANALYSIS
OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

CAPITAL EXPENDITURES

The following table sets forth the stores opened and remodeled and related capital expenditures for the fiscal years presented:

	1996	1995(1)	1994
Levi's(R) Outlet by Designs	--	--	15
Designs	--	1	1
Boston Traders(R) outlets	1	2	--
Joint Venture:			
Original Levi's(R) Stores(TM)	--	3	4
Levi's(R) Outlet stores	6	4	--
Total new stores	7	10	20
Remodeled Levi's(R) Outlet by Designs	5	7	14
Remodeled Designs	--	11	3
Remodeled Boston Traders(R) outlets	1		
Total remodeled stores	6	18	17
Capital expenditures (000's)	$2,775	$10,971	$9,500

(1) Excludes 33 Boston Traders(R) outlet stores acquired in fiscal 1995.

The Company incurred additional capital expenditures of $9.5 million in fiscal 1996 related to the relocation of its corporate office, enhanced management information systems and the development of the Boston Trading Co.(SM) store concept.

On May 2, 1995, the Company acquired certain assets of Boston Trading in accordance with the terms of an Asset Purchase Agreement dated April 21, 1995. The Company paid $5.4 million in cash, financed by operations, and delivered a non-negotiable promissory note in the principal amount of $1.0 million (the "Purchase Note"). The principal amount of the Purchase Note is 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 the $500,000 payment of principal on the Purchase Note that was due on May 2, 1996. The Company has paid all interest in accordance with the terms of the Purchase Note. In conjunction with the Asset Purchase Agreement, the Company also issued a total of 50,000 shares of its Common Stock, to the former stockholders of Boston Trading, subject to certain rights and restrictions. These shares are considered outstanding for purposes of calculating weighted average shares outstanding. The fair value of these shares on the date of issuance was included in the acquisition price.

On January 28, 1995, Designs JV Corp., a wholly-owned subsidiary of the Company, and a wholly-owned subsidiary of Levi's Only Stores, Inc., a wholly-owned subsidiary of Levi Strauss and Co., entered into a partnership agreement (the "Partnership Agreement") to sell Levi's(R) brand jeans and jeans-related products. The joint venture that was established by the Partnership Agreement is known as The Designs/OLS Partnership (the "OLS Partnership"). The term of the joint venture is ten years, however, the Partnership Agreement contains certain exit rights that enable either partner to buy or sell its interest in the joint venture after five years. The Company previously announced that the OLS Partnership may open up to thirty-five to fifty Original Levi's(R) Stores(TM) and Levi's(R) Outlets throughout eleven Northeast states and the District of Columbia through the end of fiscal 1999. At the end of fiscal 1996, the OLS Partnership operated eleven Original Levi's(R) Stores(TM) and ten Levi's(R) Outlets.

In connection with the formation of the joint venture, Designs JV Corp. contributed, for a 70% interest in the joint venture, eight of the Company's then existing Original Levi's(R) Stores(TM) and three leases for then unopened stores. At the same time, LDJV Inc., the joint venture subsidiary of Levi's Only Stores, Inc., contributed approximately $4.7 million in cash to the joint venture in exchange for a 30% interest. During fiscal 1996,the OLS Partnership opened six Levi's(R) Outlet stores which were funded by working capital and partner contributions in fiscal 1995 of $3.6 million and $1.6 million from Designs JV Corp. and LDJV Inc., respectively. The Partnership Agreement requires the OLS Partnership to distribute excess cash to its partners. Accordingly, during April 1997, the OLS Partnership distributed $1,820,000 and $780,000 to Designs JV Corp. and LDJV Inc., respectively, pursuant to this requirement.

During the third quarter of fiscal 1996, the Company entered into a Credit Agreement (the "OLS Credit Agreement") with the OLS Partnership and Levi's Only Stores, Inc. under which the Company and Levi's Only Stores, Inc. are committed to make advances to the OLS Partnership in amounts up to

$3.5 million and $1.5 million, respectively. This credit facility bears interest at BayBank, N.A.'s prime rate and expires on September 30, 1997, unless terminated earlier pursuant to other provisions of the OLS Credit Agreement. The OLS Credit Agreement also provides that there may not be credit advances outstanding on the last day of the fiscal year. There were no advances under this facility during fiscal 1996. The Company has not established a cash reserve to fund this commitment. It is the intention of the partners in the joint venture that additional working capital for the joint venture's expansion will come from its operations, capital contributions, loans from the partners and borrowings from third parties.

In June 1994, Levi Strauss & Co. advised the Company that it did not see any additional growth in the Levi's(R) Outlet by Designs store format, other than additional outlet stores that might be opened by the OLS Partnership. As such, the Company does not currently plan to open any Levi's(R) Outlet by Designs stores during fiscal 1997. In addition, the OLS Partnership is opening its own outlets, which may have an impact on the availability of goods to the Levi's(R) Outlet by Designs stores.

Present plans are that the future growth of the Company will be derived from the opening of new stores that will feature the Boston Traders(R) brand and stores opened by the OLS Partnership. The Company estimates that capital expenditures during fiscal 1997 will be approximately $14.2 million, which will be used to remodel existing stores, open up to six new Boston Trading Co.(SM) stores, fund several special projects and enhance management information systems.

In November 1996, the Company and Levi Strauss & Co. replaced an existing license agreement by entering into a new 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 operation 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 will be for a period co-terminous with the lease term for such store (including extension options), unless Levi Strauss & Co. otherwise extends the term of the license for that particular store. Levi Strauss & Co. has no obligation to extend beyond the initial term of the license described above. The leases (including extension options) relating to approximately one-half of the Levi's(R) Outlet by Designs stores open at the end of fiscal 1996 expire in or prior to fiscal 2009 and all except four 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 relevant Levi's(R) Outlet by Designs stores, and it will continue to evaluate the performance of all of its existing stores. As a result of this process, certain store locations could be closed or relocated within a shopping center in the future.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 1997, Statement of Financial Accounting Standards No. 128, "Account for Earnings Per Share (EPS)" (FAS 128) was issued establishing standards for calculating and presenting earnings per share. FAS 128 requires dual presentation of basic and diluted EPS and requires a reconciliation of the numerator and denominator from basic EPS to the diluted EPS calculation. The Company has not yet determined the impact of this standard.

EFFECTS OF INFLATION

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

The foregoing discussion of the Company's results of operations, liquidity, capital resources and capital expenditures includes certain forward-looking information. Such forward-looking information requires management to make certain estimates and assumptions regarding the Company's expected strategic direction and the related effect of such plans on the financial results of the Company. Accordingly, actual results and the Company's implementation of its plans and operations may differ materially from forward-looking statements made by the Company. The Company encourages readers of this information to refer to the Company's Current Report on Form 8-K, previously filed with the United States Securities and Exchange Commission on April 22, 1997, which identifies certain risks and uncertainties that may have an impact on future earnings and the direction of the Company.

CONSOLIDATED BALANCE SHEETS

February 1, 1997 and February 3, 1996

(In Thousands)	February 1, 1997 (Fiscal 1996)	February 3, 1996 (Fiscal 1995)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,390	$ 13,941
Short-term investments (Note C)	5,887	5,978
Accounts receivable	558	473
Inventories	79,958	58,008
Deferred income taxes (Note E)	1,160	922
Pre-opening costs, net	524	884
Prepaid expenses	4,834	3,968
Total current assets	96,311	84,174
Property and equipment, net of accumulated depreciation and amortization (Note B)	39,216	36,083
Other assets:		
Long-term investments (Note C)	--	6,050
Deferred income taxes (Note E)	2,743	2,698
Intangible Assets, net	3,078	2,901
Other assets	412	743
Total assets	$ 141,760	$ 132,649
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,194	$ 8,185
Accrued expenses and other current liabilities	7,046	8,346
Accrued rent	2,398	2,586
Income taxes payable	1,353	--
Current portion of long-term note (Note L)	1,000	500
Total current liabilities	23,991	19,617
Long-term note payable (Note L)	--	500
Commitments and contingencies (Note F)		
Minority interest (Note K)	6,724	6,447
STOCKHOLDERS' EQUITY (NOTE G):		
Preferred Stock, $0.01 par value, 1,000,000 shares authorized, none issued		
Common Stock, $0.01 par value, 50,000,000 shares authorized, 15,873,000, and 15,818,000 shares issued at February 1, 1997 and February 3, 1996, respectively	159	158
Additional paid-in capital	53,320	52,767
Retained earnings	59,393	53,160
Treasury stock at cost, 281,000 shares at February 1, 1997	(1,827)	--
Total stockholders' equity	111,045	106,085
Total liabilities and stockholders' equity	$ 141,760	$ 132,649

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

CONSOLIDATED STATEMENTS OF INCOME

For the fiscal years ending February 1, 1997, February 3, 1996 and January 28, 1995

(In Thousands, Except Per Share Data)	Fiscal 1996	Fiscal 1995	Fiscal 1994
Sales	$ 289,593	$ 301,074	$ 265,910
Cost of goods sold including occupancy	203,364	211,989	181,784
Gross profit	86,229	89,085	84,126
Expenses:			
Selling, general and administrative	65,936	66,988	52,916
Restructuring income (Note J)	--	(2,200)	(3,200)
Depreciation and amortization	10,403	8,752	6,879
Total expenses	76,339	73,540	56,595
Operating income	9,890	15,545	27,531
Interest expense	197	196	609
Interest income	1,166	1,591	1,477
Income before minority interest and income taxes	10,859	16,940	28,399
Less minority interest (Note K)	495	425	--
Income before income taxes	10,364	16,515	28,399
Provision for income taxes (Note E)	4,100	6,742	11,496
Net income	$ 6,264	$ 9,773	$ 16,903
Net income per common and common equivalent share	$ 0.40	$ 0.62	$ 1.06
Weighted average common and common equivalent shares outstanding	15,755	15,770	15,914

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the fiscal years ending February 1, 1997, February 3, 1996 and January 28, 1995

(In Thousands)	Common Stock Shares	Common Stock Amounts	Treasury Stock Shares	Treasury Stock Amounts	Additional Paid-in Capital	Retained Earnings	Total
Balance at January 29, 1994	15,960	$ 160			$ 54,507	$ 26,516	$ 81,183
Issuance of Common Stock:							
Exercises under option programs	95	-			438(1)		438
Retirement of shares under the stock repurchase program	(300)	(3)			(2,326)		(2,329)
Unrealized loss on investments						(493)	(493)
Net income						16,903	16,903
Balance at January 28, 1995	15,755	$ 157			$ 52,619	$ 42,926	$ 95,702
Issuance of Common Stock:							
Exercises under option programs	63	1			148(1)		149
Unrealized gain on investments						461	461
Net income						9,773	9,773
Balance at February 3, 1996	15,818	$ 158		$ -	$ 52,767	$ 53,160	$106,085
Issuance of Common Stock:							
Exercises under option programs	5				24(1)		24
Repurchase of 281,000 shares under the stock repurchase program			(281)	$(1,827)			(1,827)
Issuance of 50,000 shares as part of the Boston Trading Ltd., Inc. acquisition	50	1			529		530
Unrealized loss on investments						(31)	(31)
Net income						6,264	6,264
Balance at February 1, 1997	15,873	$ 159	$(281)	$(1,827)	$ 53,320	$ 59,393	$111,045

(1) Net of related tax benefit.

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

STATEMENTS OF CASH FLOWS

For the fiscal years ending February 1, 1997, February 3, 1996 and January 28, 1995

(In Thousands)	Fiscal 1996	Fiscal 1995	Fiscal 1994
Cash flows from operating activities:			
Net income	$ 6,264	$ 9,773	$ 16,903
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	10,403	8,752	6,879
Deferred income taxes	(262)	(560)	4,251
Minority interest	495	425	--
Gain on sale of stores	--	--	(1,069)
Loss from sale of investments	17	71	464
Loss (Gain) from disposal of property and equipment	(35)	1,382	134
Changes in operating assets and liabilities, net of acquisition:			
Accounts receivable	(85)	3,750	(13)
Inventories	(21,950)	(2,342)	(8,360)
Prepaid expenses	(993)	(2,656)	15
Prepaid income taxes	--	--	(28)
Income taxes payable	1,480	(98)	(1,374)
Accounts payable	4,009	(5,025)	6,502
Restructuring reserve	--	--	(6,422)
Accrued expenses and other current liabilities	(1,300)	2,402	2,948
Accrued rent	(188)	(5,104)	(12)
Net cash (used for) provided by operating activities	(2,145)	10,770	20,818
Cash flows from investing activities:			
Additions to property and equipment	(12,290)	(18,021)	(12,604)
Incurrence of pre-opening costs	(640)	(1,582)	(809)
Proceeds from disposal of property and equipment	151	92	75
Sale of investments	6,072	4,483	8,971
(Increase) Reduction in other assets	322	(218)	(486)
Net cash used for investing activities	(6,385)	(15,246)	(4,853)
Cash flows from financing activities:			
Payment for acquisition of a business	--	(5,428)	--
Repayments of long-term debt	--	--	(10,000)
Repurchase of common stock	(1,827)	--	(2,329)
Proceeds from minority shareholder of joint venture	--	1,560	4,749
Distributions to minority shareholder	(218)	(287)	--
Issuance of common stock under option program (1)	24	148	438
Net cash used for financing activities	(2,021)	(4,007)	(7,142)
Net increase (decrease) in cash and cash equivalents	(10,551)	(8,483)	8,823
Cash and cash equivalents:			
Beginning of the year	13,941	22,424	13,601
End of the year	$ 3,390	$ 13,941	$ 22,424

(1) Net of related tax benefit.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LINE OF BUSINESS

Designs, Inc. (the "Company") is engaged in the retail sales of clothing and accessories. Levi Strauss & Co. is the most significant vendor of the Company, representing a substantial portion of the Company's merchandise purchases.

BASIS OF PRESENTATION

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

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

FISCAL YEAR

The Company's fiscal year is a 52 or 53 week period ending on the Saturday closest to January 31. Fiscal years 1996, 1995, and 1994 ended on February 1, 1997, February 3, 1996, and January 28, 1995, respectively. Fiscal year 1995 was a 53 week period, whereas fiscal years 1996 and 1994 were 52 week periods.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

Merchandise inventories are valued at the lower of cost or market using the retail method on the last-in first-out basis ("LIFO"). If inventories had been valued on the first-in first-out basis ("FIFO"), inventories at February 1, 1997 and February 3, 1996 would have been approximately $81,150,000 and $58,809,000 respectively. The (provision) benefit for LIFO was ($391,000), $924,000 and $200,000 in fiscal 1996, 1995 and 1994, respectively.

PROPERTY AND EQUIPMENT

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

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

INVESTMENTS

The Company's investments, consisting primarily of government securities, are classified as available for sale and are recorded at fair value, in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Fair value is based upon quoted market prices on the last day of the fiscal year. Unrealized changes in value are recorded as a component of stockholders' equity, net of the related deferred tax asset or liability. The Company recorded unrealized losses of $105,000 and $68,000 for fiscal years 1996 and 1995, respectively.

INTANGIBLES

Trademarks and licensing agreements are amortized on a straight line basis over 15 years and three years, respectively. Accumulated amortization for trademark and licensing was $577,000 and $216,000 for fiscal 1996 and 1995, respectively.

PRE-OPENING COSTS

Store opening costs, consisting primarily of payroll and rent, are capitalized when incurred and charged to expense during the first 12 months of store operations. Amortization expense of pre-opening costs was $1,000,000, $1,180,000 and $433,000 for fiscal 1996, 1995 and 1994, respectively.

MINORITY INTEREST

As more fully discussed in Note K, minority interest at February 1, 1997 and February 3, 1996 represents LDJV Inc.'s 30% interest in The Designs/OLS

Partnership, a joint venture between Designs JV Corp., a wholly-owned subsidiary of the Company, and LDJV Inc., a wholly-owned subsidiary of Levi's Only Stores, Inc., which is a wholly-owned subsidiary of Levi Strauss & Co.

BANK CHARGES

Bank charges related to credit card sales are recorded as selling expenses.

ADVERTISING COSTS

Advertising costs are expensed as incurred.

NET INCOME PER SHARE

Net income per share of Common Stock is based upon the weighted average number of common, and when greater than 3% dilutive, common equivalent shares outstanding during the period. Common equivalent shares result from the assumed exercise of dilutive stock options.

During fiscal 1994, the Company's Board of Directors authorized the repurchase of up to two million shares of the Company's Common Stock. The Company repurchased 280,900 shares of the Company's Common Stock during fiscal 1996 at an aggregate cost of $1,827,000. These shares were recorded by the Company as treasury stock, which were reflected as a reduction in shareholders' equity. Shares owned by the Company are not considered outstanding for the computation of earnings per share until re-issued by the Company. In fiscal 1994, the Company repurchased and retired 300,000 shares at a cost of $2,329,000. The retirement of these shares were reflected as a reduction in Common Stock and Additional Paid-in Capital.

NEW ACCOUNTING PRONOUNCEMENT

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings Per Share" (SFAS 128), which is effective for fiscal years ending after December 15, 1997, including interim periods. Earli er adoption is not permitted. However, an entity is permitted to disclose pro forma earnings per share amounts computed under SFAS 128 in the notes to the financial statements in periods prior to adoption. The Statement requires restatement of all prior-period earnings per share data presented after the effective date. SFAS 128 specifies the computation, presentation, and disclosure requirements for earnings per share and is substantially similar to the standard recently issued by the International Accounting Standards Committee entitled "International Accounting Standards, Earnings Per Share." The Company plans to adopt SFAS in 1997 and has not yet determined the impact.

B. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(In Thousands)	February 1, 1997	February 3, 1996
Motor vehicles	$ 379	$ 169
Store furnishings	23,100	20,589
Equipment	8,357	7,708
Leasehold improvements	33,901	30,978
Purchased software	5,982	2,576
Construction in progress	257	365
	71,976	62,385
Less accumulated depreciation	32,760	26,302
Total property and equipment	$39,216	$36,083

Depreciation expense for fiscal 1996, 1995 and 1994 was $9,042,000, $7,357,000 and $5,452,000, respectively.

C. INVESTMENTS

At February 1, 1997, and February 3, 1996, the Company's investment securities at cost and fair value were as follows:

	February 1, 1997		February 3, 1996	
(In Thousands)	Cost	Fair Value	Cost	Fair Value
Short-term investments:				
U.S. Government	$5,992	$ 5,887		
Mortgage-backed securities			$ 5,993	$ 5,978
Total	$5,992	$ 5,887	$ 5,993	$ 5,978
Long-term investments:				
U.S. Government	-	-	$ 5,834	$ 5,781
Municipal bonds	-	-	269	269
Total	-	-	$ 6,103	$ 6,050
The Company's investment portfolio matures as follows:				
Less than one year		$ 5,887		$ 5,978
1 - 5 years				6,050
		$ 5,887		$12,028

The Company realized losses on the sale of certain investments of $17,200 and $71,000 in fiscal 1996 and 1995, respectively.

D. DEBT OBLIGATIONS

On July 24, 1996, the Company entered into an amended and restated credit agreement (the "Credit Agreement") with BayBank, N.A. and State Street Bank and Trust Company under which these banks established a credit facility for the Company. This credit facility, which terminates on June 30, 1999, consists of: (i) a revolving line of credit permitting the Company to borrow up to $15 million, and (ii) a commercial and trade letters of credit facility under which letters of credit, in aggregate amounts up to $45 million, may be issued for the Company's inventory purchases. Under the revolving line of credit portion of the facility, the Company has the ability to issue standby letters of credit up to a total of $750,000. Loans made under this portion of the facility bear interest, subject to adjustment, at BayBank, N.A.'s prime rate or LIBOR-based fixed rate. The Company may increase the commercial and trade letters of credit portion of the facility in increments of $15 million, up to a total of $45 million. Under the Credit Agreement, the Company has agreed not to pay dividends on its Common Stock if such payment would cause the Company to be in default of certain financial ratios. The Company did not pay any dividends in fiscal years 1996 and 1995. The terms of the Credit Agreement require the Company to maintain specific net worth, inventory turnover and cash flow ratios. At February 1, 1997 the Company had outstanding commercial and trade letters of credit totaling approximately $9.7 million and two outstanding standby letters of credit totaling $451,000.

The Company paid interest and fees of $253,000, $172,000 and $799,000 for the fiscal years 1996, 1995 and 1994, respectively. Fiscal year 1994 includes a prepayment penalty and accelerated write-off of debt issuance of $350,000.

E. INCOME TAXES

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

The components of the net deferred tax asset as of February 1, 1997 and February 3, 1996 are as follows:

(In Thousands)	February 1, 1997	February 3, 1996
Deferred tax assets - current:		
Inventory reserves	$ 716	$1,145
LIFO reserve	444	--
Accrued expenses	--	641
Subtotal	1,160	1,786
Deferred tax liabilities - current:		
LIFO reserve	--	864
Net deferred tax asset - current	$1,160	$ 922
Deferred tax asset - noncurrent		
Excess of book over tax		
depreciation/amortization	$2,577	$2,560
Capital loss carryforward	124	117
Unrealized loss on investment	42	21
Total deferred tax assets - noncurrent	$2,743	$2,698

The provision for income taxes consists of the following:

	Fiscal Years Ending		
(In Thousands)	February 1, 1997	February 3, 1996	January 28, 1995
Current:			
Federal	$ 3,234	$ 6,241	$ 5,561
State	1,149	1,031	1,783
	4,383	7,272	7,344
Deferred:			
Federal	(223)	(481)	3,382
State	(60)	(49)	770
	(283)	(530)	4,152
Total Provision	$ 4,100	$ 6,742	$11,496

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

	Fiscal Years Ending		
	February 1, 1997	February 3, 1996	January 28, 1995
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income and other taxes, net of federal tax benefit	5.8	5.8	5.5
Permanent items and tax credits	(1.2)	-	-
Effective tax rate	39.6%	40.8%	40.5%

The Company paid income taxes of $2,888,000, $7,452,000 and $8,579,000 during fiscal years 1996, 1995 and 1994, respectively. These figures represent the net of payments and receipts.

F. COMMITMENTS AND CONTINGENCIES

At February 1, 1997, the Company was obligated under operating leases covering store and office space, automobiles and certain equipment for future minimum rentals as follows:

Fiscal	Total (In Thousands)
1997	$ 27,523
1998	26,163
1999	22,990
2000	20,425
2001	17,888
Thereafter	49,314
	$164,303

In addition to minimum rental payments, many of the store leases include provisions for common area maintenance, mall charges, escalation clauses and additional rents based on percentage of store sales above designated levels. The Company signed a new lease for its corporate headquarters in Needham, Mass achusetts during fiscal 1995. The term of the lease is for ten years, ending in November 2005. The lease provides for the Company to pay all related costs associated with the land and headquarters building. The Company has employment agreements with certain executive officers, the initial terms of which expire, unless earlier terminated in accordance with their terms, on October 16, 1998. Such agreements provide for minimum salary levels, adjusted for cost of living increases as well as bonuses as determined by the Compensation Committee of the Company's Board of Directors. The aggregate commitment for future salaries at February 1, 1997, excluding bonuses, was $1,593,000.

Amounts charged to operations for occupancy, excluding a related party lease, were $35,921,000, $32,998,000 and $27,250,000 in fiscal years 1996, 1995 and 1994, respectively. Of these amounts charged to operations, $780,000, $847,000 and $676,000 represent payments based upon a percentage of adjusted gross sales as provided in the lease agreement for the fiscal years ended 1996, 1995 and 1994, respectively. Amounts charged to operations for the related party lease were $150,000, $764,000 and $498,000 in fiscal years 1996, 1995 and 1994, respectively. See Note H for additional information regarding the related party lease. As more fully discussed in Note K, the Company remains principally liable on three leases which were assigned to Levi's Only Stores, Inc., a wholly-owned subsidiary of Levi Strauss & Co., in connection with the sale of the Company's Original Levi's(R) Store(TM) located in Minneapolis, Minnesota and the two Dockers(R) Shops located in Minneapolis, Minnesota and Cambridge, Massachusetts. The store leases in Minneapolis and Cambridge expire in January 2003 and January 2002, respectively.

G. STOCK OPTIONS

The Company's Board of Directors and its stockholders previously approved the 1987 Incentive Stock Option Plan (the "Incentive Plan") pursuant to which, as amended, stock options to purchase up to 787,500 shares of Common Stock may be issued to key employees (including executive officers and directors who are employees). The Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors, which designates the optionees, number of shares for each option grant, option prices (which may not be less than fair value on the date of grant), date of grant, vesting schedule (ranging from three to five years) and period of option (which may not be more than ten years). All Incentive Plan options are non-assignable. The Incentive Plan terminates when all shares issuable thereunder have been issued. The Company's Board of Directors and its stockholders also previously approved the 1987 Non-Qualified Stock Option Plan (the "Non-Qualified Plan") pursuant to which stock options to purchase up to 337,500 shares of Common Stock which are not "incentive stock options" (as defined in Section 422 of the Internal Revenue Code, as amended) may be issued to key employees (including executive officers and directors of the Company) and directors who are not employees of the Company. The Non-Qualified Plan is administered by the Compensation Committee of the Company's Board of Directors, which designates the optionees, number of shares for each option grant, option prices (which may not be less than 85% of the fair market value on the date of grant), date of grant, vesting schedule (ranging from three to five years) and period of option (which may not be more than ten years). All Non-Qualified Plan options are non-assignable. The Non-Qualified Plan terminates when all shares issuable have been issued.

On April 3, 1992, the Board of Directors adopted the 1992 Stock Incentive Plan (the "1992 Plan"), which became effective on June 9, 1992, when it was approved by the stockholders of the Company. Under the 1992 Plan, as amended, up to 1,850,000 shares of Common Stock may be issued pursuant to "incentive stock options" (as defined in Section 422 of the Internal Revenue Code, as amended), options which are not "incentive stock options," conditioned stock awards, unrestricted stock awards and performance share awards. The 1992 Plan is administered by the Compensation Committee, all of the members of which are non-employee directors. The Compensation Committee makes all determinations with respect to amounts and conditions covering awards under the 1992 Plan. Options have never been granted at any price less than fair value on the date of the grant. Options granted to employees, executives and directors typically vest over five, three and three years, respectively. Options granted under the 1992 Plan expire ten years from the date of grant. The 1992 Plan terminates when all shares issuable thereunder have been issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A summary of shares subject to the option plans described above is as follows:

1987 INCENTIVE STOCK OPTION PLAN

	Fiscal Year 1996	1995	1994
Outstanding at beginning of year	96,339	160,561	241,365
Options granted	18,500	--	--
Options canceled	6,000	1,670	14,720
Options exercised	11,533	62,552	66,084
Outstanding at end of year	97,306	96,339	160,561
Options exercisable at end of year	76,406	89,139	129,273
Common shares reserved for future grants at end of year	9,105	21,605	19,935
Weighted average exercise price per option:			
Granted during the year	$ 6.62	--	--
Canceled during the year	$ 11.17	$ 2.37	$ 8.17
Exercised during the year	$ 2.05	$ 2.37	$ 2.40
Outstanding at end year of year	$ 4.01	$ 3.71	$ 3.18

The following table summarizes information about stock options outstanding at February 1, 1997:

Range of Exercise Prices	Options Outstanding: Number Outstanding	Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable: Number Exercisable	Weighted Average Exercise Price
$1.62 to $ 2.34	65,388	3.5 years	$ 2.05	64,931	$ 2.05
2.50 to 2.78	2,475	3.6 years	2.67	2,475	2.67
6.63 to 6.63	18,500	9.5 years	6.63	-	-
11.17 to 11.17	11,400	5.3 years	11.17	9,000	11.17
1.62 to 11.17	97,306			76,406	

1987 NON-QUALIFIED STOCK OPTION PLAN

	Fiscal Year 1996	1995	1994
Outstanding at beginning of year	76,948	76,948	99,448
Options granted	--	--	--
Options canceled	--	--	--
Options exercised	--	--	22,500
Outstanding at end of year	76,948	76,948	76,948
Options exercisable at end of year	76,948	76,948	66,148
Weighted average exercise price per option:			
Exercised during the year	--	--	$ 2.34
Outstanding at end of year	$ 2.53	$ 2.53	$ 2.53

The following table summarizes information about stock options outstanding at February 1, 1997:

Range of Exercise Prices	Options Outstanding: Number Outstanding	Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable: Number Exercisable	Weighted Average Exercise Price
$2.34 to $2.67	76,948	3.7 years	$ 2.53	76,948	$ 2.53

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1992 STOCK INCENTIVE PLAN

	Fiscal Year 1996	1995	1994
Outstanding at beginning of year	1,520,050	1,298,950	1,091,150
Options granted	301,250	440,500	406,000
Options canceled	160,900	219,400	191,600
Options exercised	--	--	6,600
Outstanding at end of year	1,660,400	1,520,050	1,298,950
Options exercisable at end of year	937,496	698,180	445,966
Common shares reserved for future grants at end of year	174,200	314,550	535,650
Weighted average exercise price per option			
Granted during the year	$ 6.72	$ 8.93	$ 12.77
Canceled during the year	$ 10.10	$ 10.50	$ 14.69
Exercised during the year	--	--	$ 11.17
Outstanding at end of year	$ 12.00	$ 12.85	$ 14.59

The following table summarizes information about stock options outstanding at February 1, 1997:

Range of Exercise Prices	Options Outstanding Number Outstanding	Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable Number Exercisable	Weighted Average Exercise Price
$ 6.13 to $ 9.00	647,050	8.6 years	$ 7.71	110,866	$ 8.52
10.50 to 15.25	547,450	6.2 years	11.90	409,064	11.85
16.50 to 21.50	465.900	6.3 years	18.08	417,566	18.13
6.13 to 21.50	1,660,400			937,496	

On July 26, 1993, stock options covering an aggregate of 67,500 shares of Common Stock were granted outside of the Incentive Plan, the Non-Qualified Plan and the 1992 Plan to the non-employee directors of the Company. Each of these options has an exercise price of $17.50 per share and each remained outstanding as of the end of fiscal 1996. These options became exercisable in three equal installments commencing twelve months following the date of grant and have a 10 year term.

When shares are sold within one year of exercise or within two years from date of grant, the Company derives a tax deduction measured by the excess of the market value over the option price at the date the shares are sold, which approximated $27,980, $239,000 and $511,000 in fiscal years 1996, 1995 and 1994, respectively.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its plans. FASB Statement No. 123 "Accounting for Stock-Based Compensation" (FAS 123) was issued by the FASB in 1995 and requires the company to elect either expense recognition under FAS 123 or its disclosure-only alternative for stock-based employee compensation. The Company has elected the disclosure-only alternative and accordingly has disclosed the pro forma net income or loss and per share amounts using the fair value based method.

Had compensation costs for the Company's grants for stock-based compensation been determined consistent with FAS 123, the Company's net income, and earnings per share would have been reduced to the pro forma amounts indicated below:

(In Thousands, Except Per Share Amounts)	Fiscal Years Ended February 1, 1997	February 3, 1996
Net income - as reported	$6,264	$9,773
Net income - pro forma	5,933	9,621
Earnings per share - as reported	$ 0.40	$ 0.62
Earnings per share - pro forma	0.38	0.61

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

The fair value of each option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for grants in fiscal 1996 and 1995: expected volatility of 51.96%; risk free interest rate of 6.3% and 6.1% in fiscal 1996 and 1995, respectively; and expected lives of 4.5 years. No dividend rate was used for fiscal 1996 or 1995. The weighted average fair value of options granted in fiscal 1996 and 1995 was $3.35 and $4.43, respectively.

H. RELATED PARTIES

Until April 30, 1996, the Company leased its headquarters in Chestnut Hill, Massachusetts, from Durban Trust, a nominee trust of which the sole beneficiary is a partnership affiliated with Stanley I. Berger, the Chairman of the Board of the Company, and Calvin Margolis, a former director of the Company. The general partner of the beneficiary is a corporation controlled by Mr. Berger and the estate of Mr. Margolis, and the only limited partners of the beneficiary are Mr. Berger and the estate of Mr. Margolis, individually. Total rent paid to Durban Trust in fiscal 1996, 1995 and 1994 was approximately $150,000, $764,000 and $491,000, respectively. When the lease expired April 30, 1996, the Company moved its headquarters to Needham, Massachusetts. See Note F. Bernard M. Manuel, a Director of the Company, is the Chairman of the Board of Cygne Designs, Inc. During fiscal year 1995, Cygne Designs, Inc. provided sourcing for the Company's private label products. The Company paid $311,000 for merchandise purchased from Fenn Wright & Manson, Inc., a division of Cygne Designs, Inc. No products were purchased from Cygne Designs, Inc. or its affiliates in fiscal 1996.

I. EMPLOYEE BENEFIT PLANS

The Company has a defined contribution 401(k) plan which covers all eligible employees who have completed one year of service. Under this plan, the Company may provide matching contributions up to a stipulated percentage of employee contributions. The plan is fully funded by the Company; and the matching contribution, if any, is established each year by the Board of Directors. For fiscal 1996, the matching contribution by the Company was set at 50% of contributions by eligible employees up to a maximum of 6% of salary. The Company recognized $231,000, $229,000 and $205,000 of expense under this plan in fiscal 1996, 1995 and 1994, respectively.

J. RESTRUCTURING

In fiscal 1993, the Company recorded a non-recurring pre-tax charge of $15.0 million to cover the costs associated with the closing of 15 of its poorest performing Designs stores. The earnings and cash flow benefit derived from the restructuring totaled $2.7 million for fiscal 1995 and $1.6 million for fiscal 1994, respectively. The costs to close these 15 stores totaled $9.6 million, comprised of $6.1 million cash and $3.5 million of noncash costs. Total costs of $9.6 million to close the 15 stores were less than the original pre-tax $15.0 million estimate, primarily due to favorable negotiations with landlords. The remaining reserve was recognized in fiscal 1995 and fiscal 1994 as non-recurring pre-tax income in the amount of $2.2 million and $3.2 million, respectively.

K. FORMATION OF JOINT VENTURE

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 Company previously announced that the OLS Partnership plans to open and operate thirty-five to fifty Original Levi's(R) Stores(TM) and Levi's(R) Outlets throughout eleven Northeast states and the District of Columbia through the end of fiscal 1999. This includes the eleven Original Levi's(R) Stores(TM) and ten Levi's(R) Outlets open at the end of fiscal 1996. The Levi's(R) Outlet stores owned by the OLS Partnership sell only Levi's(R) brand products and end of season and close-out products from the Original Levi's(R) Stores(TM).

In connection with the formation of the joint venture, Designs JV Corp. contributed, for a 70% interest in the joint venture, eight of the Company's then existing Original Levi's(R) Stores(TM) and three leases for then unopened stores in New York City, Nanuet, New York, and White Plains, New York. These stores are included in the 35 to 50 stores described above. At the same time, LDJV Inc., the joint venture subsidiary of the Levi's Only Stores, Inc., contributed approximately $4.7 million in cash to the joint venture in exchange for a 30% interest.

During October 1995, Designs JV Corp. and LDJV Inc. agreed to provide an additional capital contribution of cash totaling $5.2 million to the OLS Partnership to fund its capital expenditures needs. Designs JV Corp. and LDJV Inc. contributed $3,640,000 and $1,560,000, respectively.

In accordance with the Partnership Agreement, the OLS Partnership distributed $505,000 and $218,000 in fiscal 1996 to Designs JV Corp. and LDJV Inc., respectively. In fiscal 1995, the OLS Partnership distributed $670,000 and $287,000 to Designs JV Corp. and LDJV Inc., respectively. These distributions represented funds sufficient for each of the partners to pay taxes associated with the earnings of the OLS Partnership for the fiscal years ended February 1, 1997 and February 3, 1996.

The term of the OLS Partnership is ten years; however, the Partnership Agreement contains certain exit rights that enable either partner to buy or sell its interest in the OLS Partnership after five years. The Partnership Agreement provides for certain special capital account allocations and cash distributions, but otherwise allocates and distributes income in proportion to the partners' percentage ownership.

During the third quarter of fiscal 1996, the Company entered into a Credit Agreement (the "OLS Credit Agreement") with the OLS Partnership and Levi's Only Stores, Inc. under which the Company and Levi's Only Stores, Inc. are committed, when requested, to make advances to the OLS Partnership in amounts up to $3.5 million and $1.5 million, respectively. This credit facility bears interest at BayBank, N.A.'s prime rate and expires on September 30, 1997, unless terminated earlier pursuant to other provisions of the OLS Credit Agreement. The OLS Credit Agreement also provides that there will be no credit advances outstanding on the last day of the fiscal year. There were no credit advances outstanding under this facility at February 1, 1997.

For financial reporting purposes, the OLS Partnership's assets, liabilities and results of operations are consolidated with those of the Company and LDJV Inc.'s 30% interest in the OLS Partnership is included in the Company's financial statements as minority interest.

L. BOSTON TRADING LTD., INC. ACQUISITION

On May 2, 1995, the Company acquired certain assets of Boston Trading Ltd., Inc. ("Boston Trading") in accordance with the terms of an Asset Purchase Agreement dated April 21, 1995, among Boston Trading, Designs Acquisition Corp., the Company and others (the "Purchase Agreement"). The Company paid $5,428,000 million in cash, financed by operations, and delivered a non-negotiable promissory note in the principal amount of $1,000,000 (the "Purchase Note"). The principal amount of the Purchase Note is payable in two equal annual installments through May 1997. The note bears interest at the published prime rate and is payable semi-annually from the date of acquisition.

In conjunction with the Asset Purchase Agreement, the Company also issued a total of 50,000 shares of its Common Stock to the former stockholders of Boston Trading, subject to certain rights and restrictions. These shares are considered outstanding for purposes of calculating weighted average shares outstanding. The fair value of these shares on the date of issuance was included in the acquisition price.

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 the $500,000 payment of principal on the Purchase Note that was due on May 2, 1996. The Company has paid all interest due through February 1, 1997, in accordance with the terms of the Purchase Note.

M. SHAREHOLDER RIGHTS PLAN

On May 1, 1995, the Board of Directors of the Company adopted a Shareholder Rights Plan. Pursuant to the Plan, the Company entered into a Shareholder Rights Agreement ("Rights Agreement") between the Company and its transfer agent. Pursuant to the Rights Agreement, the Board of Directors declared a dividend distribution of one preferred stock purchase right (the "Right(s)") for each outstanding share of the Company's Common Stock to stockholders of record as of the close of business on May 15, 1995. Initially, these Rights are not exercisable and will trade with the shares of the Company's Common Stock. In the event that a person becomes an "acquiring person" or is declared an "adverse person" as each such term is defined in the Rights Agreement, each holder of a Right (other than the acquiring person or the adverse person) would be entitled to acquire such number of shares of preferred stock which are equivalent to the Company's Common Stock having a value of twice the then-current exercise price of the Right. If the Company is acquired in a merger or other business combination transaction after any such event, each holder of a Right would then be entitled to purchase, at the then-current exercise price, shares of the acquiring company's Common Stock having a value of twice the exercise price of the Right.

N. SELECTED QUARTERLY DATA (UNAUDITED)

(In Thousands Except Per Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Fiscal Year 1996					
Net Sales	$ 59,336	$ 66,524	$ 84,958	$ 78,775	$289,593
Gross Profit	16,157	20,565	27,646	21,861	86,229
Net income	(1,145)	553	4,664	2,192	6,264
Net income per common and common equivalent share	(0.07)	0.03	0.30	0.14	0.40
Fiscal Year 1995					
Net Sales	$ 57,337	$ 66,993	$ 89,217	$ 87,527	$301,074
Gross Profit	16,197	19,877	29,314	23,697	89,085
Non-recurring income on restructuring	2,200	--	--	--	2,200
Net income	1,597	1,193	5,034	1,949	9,773
Net income per common and common equivalent share	0.10	0.08	0.32	0.12	0.62

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

Coopers & Lybrand L.L.P., independent accountants, have been engaged to examine the financial statements of the Company. The Report of Independent Accountants expresses an opinion as to the fair presentation of the financial statements in accordance with generally accepted accounting principles and is based on an audit conducted in accordance with generally accepted auditing standards.

/s/ Joel H. Reichman
Joel H. Reichman
President and Chief Executive Officer

/s/ Carolyn R. Faulkner
Carolyn R. Faulkner
Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Designs, Inc. as of February 1, 1997 and February 3, 1996 and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended February 1, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Designs, Inc. as of February 1, 1997 and February 3, 1996, and the consolidated result of its operations and its cash flows for each of the three years in the period ended February 1, 1997 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Boston, Massachusetts
March 10, 1997

CORPORATE & SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Stanley I. Berger
Chairman of the Board of Directors

James G. Groninger
President
The BaySouth Company

Bernard M. Manuel
Chairman of the Board
and Chief Executive Officer
Cygne Designs, Inc.

Joel H. Reichman
President and Chief Executive Officer

Melvin I. Shapiro
Partner
Tofias, Fleishman & Shapiro & Co., P.C.

Peter L. Thigpen
Partner
Executive Reserves

EXECUTIVE OFFICERS

Joel H. Reichman
President and Chief Executive Officer

Scott N. Semel
Executive Vice President
General Counsel and Secretary

Mark S. Lisnow
Senior Vice President
Merchandising

Carolyn R. Faulkner
Vice President and
Chief Financial Officer

CORPORATE OFFICERS

Curt Carlile
Vice President
Training and Operational Support

George F. Cavedon
Divisional Vice President
Levi's(R) Outlet by Designs Stores

Mary Ann Chenell
Vice President
Human Resources

James F. Duval
Divisional Vice President
Designs Stores

Jan Falcione
Divisional Vice President
Boston Trading Co.(SM) Stores

Martin Goldstein
Vice President
Construction and Design

Alan B. Gruber
Vice President
Ethics and Corporate Compliance

Anthony E. Hubbard
Vice President
Deputy General Counsel
and Assistant Secretary

Ben P. Lentini
Vice President
General Merchandise Manager

Vincent Jay Maffucci
Vice President
Treasurer

Maria T. McLeod
Vice President
Technology and Information Systems

Daniel L. Murphy
Vice President
Controller

Daniel O. Paulus
General Manager
The Designs/OLS Partnership

Janice G. Roberts
Vice President
Planning and Allocation

Brian J. Sequin
Divisional Vice President
Boston Traders(R) Outlet Stores

Michael E. Strubing
Vice President
Logistics

Roderick M. Wills
Vice President
Merchandising and Planning
Boston Traders(R) Outlet Stores

CORPORATE OFFICES

66 B Street
Needham, MA 02194
(617) 444-7222

SHAREHOLDER INFORMATION

STOCK LISTING

The company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol "DESI."

COMMON STOCK PRICES

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

Fiscal Year Ending February 1, 1997	High	Low
First Quarter	7 1/8	5 3/4
Second Quarter	7 3/4	5 1/4
Third Quarter	7 1/8	5 1/2
Fourth Quarter	7 1/8	5 1/2

Fiscal Year Ending February 3, 1996	High	Low
First Quarter	10 5/8	7 1/4
Second Quarter	11 1/4	8
Third Quarter	10	6 3/4
Fourth Quarter	8 7/8	5 5/8

As of March 20, 1997, based upon data provided by independent shareholder communication services and the transfer agent for the common stock, there were approximately 500 holders of record of common stock and 9,000 beneficial holders of common stock.

DIVIDEND POLICY

The company currently pays no cash dividends on its common stock. See Note D of Notes to Consolidated Financial Statements.

ANNUAL MEETING

The 1997 Annual Meeting of Stockholders of Designs, Inc. will be held on Tuesday, June 10, 1997 at 8:00 a.m. at the Sheraton Needham Hotel, 100 Cabot Street, Needham, Massachusetts.

FINANCIAL INFORMATION

Requests for financial information should be directed to the Investor Relations Department at the company's headquarters: Designs, Inc., 66 B Street, Needham, MA 02194 (617) 444-7222. A copy of the company's Annual Report on Form 10-K for the fiscal year ended February 1, 1997, filed with the Securities and Exchange Commission, may be obtained without charge upon request to the Investor Relations Department.

DESIGNS, INC. SHAREHOLDER INFORMATION LINE

By dialing the Designs, Inc. Shareholder Information Line, shareholders can obtain the company's latest financial information and news announcements, including sales and earnings releases. The service also may be used to request printed material, to be sent via mail or fax. To access the service, call 1-888-DESI-333.

Approximate reporting dates for fiscal year 1997 quarterly earnings are:

Quarter 1:	May 19, 1997
Quarter 2:	August 18, 1997
Quarter 3:	November 17, 1997
Quarter 4 and Fiscal year end:	March 9, 1998

TRANSFER AGENT AND REGISTRAR

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

Bank of Boston
c/o BostonEquiServe Limited Partnership
P.O. Box 8040
Boston, MA 02266-8040
(617) 575-3120

INDEPENDENT ACCOUNTANTS

Coopers & Lybrand L.L.P.
Boston, Massachusetts

TRADEMARKS

Boston Traders(R) and Traders Collection(R) are registered trademarks, and Boston Trading Co.(SM) is a trademark, of Designs, Inc.

Levi's(R) and Dockers(R) are registered trademarks, and Original Levi's(R) Store(TM) is a trademark, of Levi Strauss & Co.

[DESIGNS, INC. LOGO]

66 B Street
Needham, MA 02194

Exhibit 21. Subsidiaries of the Registrant

Designs Securities Corporation
(a Massachusetts securities corporation)

Designs JV Corp.
(a Delaware corporation)

Designs Acquisition Corp.
(a Delaware corporation)

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Designs, Inc. on Forms S-8 (Reg. Nos. 33-22957, 33-32690, 33-32687 and 33-52892) of our report dated March 10, 1997, on our audits of the consolidated financial statements of Designs, Inc. as of February 1, 1997 and February 3, 1996 and for each of the three years in the period ended February 1, 1997, which report is incorporated by reference in this Annual Report on Form 10-K.

COOPERS & LYBRAND, L.L.P.

Boston, Massachusetts
May 1, 1997

5
1000
U.S. DOLLARS

12-MOS
FEB-01-1997
FEB-04-1996
FEB-01-1997
1
3,390
5,887
558
0
79,958
96,311
71,976
32,760
141,760
23,991
0
0
0
159
110,886
141,760
289,593
289,593
203,364
203,364
76,339
0
197
10,364
4,100
6,264
0
0
0
6,264
0.40
0.40

Exhibit 99

Designs, Inc. (the "Company") is filing this Report with the Securities and Exchange Commission in order to set forth in a readily available document certain significant risks and uncertainties that are important considerations to be taken into account in conjunction with consideration and review of the Company's reports, registration statements, information statements, press releases, and other publicly-disseminated documents (including oral statements concerning Company business information made by others on behalf of the Company) that include forward-looking information.

The nature of forward-looking information is that such information involves assumptions, risks and uncertainties. Certain public documents of the Company and oral statements made by authorized officers, directors, employees, agents and representatives of the Company, acting on its behalf, may include forward-looking information which will be influenced by the following and other assumptions, risks and uncertainties. Forward-looking information requires management of the Company to make assumptions, estimates, forecasts and projections regarding the Company's future results as well as the future effectiveness of the Company's strategic plans and future operational decisions. Forward-looking statements made by or on behalf of the Company are subject to the risk that the forecasts, projections, and expectations of management, or assumptions underlying such forecasts, projections and expectations, may become inaccurate. Accordingly, actual results and the Company's implementation of its plans and operations may differ materially from forward-looking statements made by or on behalf of the Company. The following discussion identifies certain important factors that could affect the Company's actual results and actions and could cause such results and actions to differ materially from any forward-looking statements made by or on behalf of the Company that related to such results and actions. Other factors, which are not identified herein, could also have such an effect.

GENERAL ECONOMIC RISK FACTORS

Forward-looking statements of the Company are subject to the risk that assumptions made by management of the Company concerning future general economic conditions such as recession, inflation, interest rates, tax rates, consumer spending and credit and other future conditions having an impact on retail markets and the Company's business may prove to be incorrect. Adverse changes in such future economic conditions could have an adverse affect on the Company's business.

CONSUMER PREFERENCES

The casual apparel industry is intensely competitive and subject to rapid changes in consumer preferences and fashion trends. A significant marketing or promotional success by one or more of the Company's existing or yet to be established competitors could adversely affect the Company's competitive position. In addition, in the United States, where the casual apparel market is mature, sales growth may depend in part on whether the Company can increase its market share at the expense of its competitors.

COMPETITION

Competition in markets for the Company's products occurs in a variety of ways, including, among other factors, price, quality, reputation, brand image and recognition, ability to anticipate fashion trends and customer preferences, store design and location, inventory control, quality control of the Company's products, advertising and customer service. Other factors that will affect the Company's competitive position include uncertainties associated with product procurement from foreign sources, dependence upon foreign manufacturing operations, the Company's ability to offer consumers a broad selection of merchandise, and the Company's ability to continue to manage operational changes required to transition the Company from a single vendor retailer to a vertically integrated retailer.

The intensity of the competition faced by the Company and the rapid changes in consumer preferences that can occur in the casual apparel markets pose significant risks to the Company. Many of the Company's competitors are national and regional department, specialty and discount chain stores that offer similar products. Many of the Company's principal competitors have greater market share and financial resources than the Company and there are no assurances that the Company will be able to compete successfully with these competitors in the future.

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 products and jeans-related products. The joint venture established by the Partnership Agreement is known as The Designs/OLS Partnership (the "OLS Partnership"). The Company previously announced that the OLS Partnership may open up to a total of thirty-five to fifty Original Levi's(R) Stores(TM) and Levi's(R) Outlet stores throughout eleven northeast states and the District of Columbia (the "Territory") through January 2000.

Levi Strauss & Co., through its wholly-owned subsidiary, Levi's Only Stores, Inc., has opened retail stores, including Original Levi's(R) Stores(TM) and Levi's(R) Outlet stores, in the United States and elsewhere. Levi's Only Stores, Inc. appears to be prepared to open additional retail stores throughout the United States. The Company understands that such store formats, including Original Levi's(R) Stores(TM), Levi's(R) Outlet stores, Dockers(R) Shop stores, Dockers(R) Outlet stores, and Personal Pair(TM) stores, may feature one or more Levi Strauss & Co. brands of merchandise. While the OLS Partnership remains in existence, Original Levi's(R) Stores(TM) and Levi's(R) Outlet stores opened in the Territory may only be opened by the OLS Partnership. Levi Strauss & Co. and its affiliates currently operate and are permitted to open retail stores based on other store formats that will compete with the Company's stores. As described elsewhere in this Report, the Company stocks its Levi's(R) Outlet by Designs stores and the OLS Partnership's Levi's(R) Outlet stores exclusively with manufacturing overruns, discontinued lines and irregulars purchased by the Company directly from Levi Strauss & Co. and end-of-season Levi Strauss & Co. brand merchandise transferred from the Company's Designs stores and the OLS Partnership's Original Levi's(R) Stores(TM).

By its nature, this merchandise is subject to limited availability and is allocated by Levi Strauss & Co., in its sole discretion, among Levi's Only Stores, Inc., the Company and the other authorized operators of Levi's(R) Outlet stores.

SEASONALITY AND INVENTORY RISK

Historically, the Company has experienced seasonal fluctuations in revenues and income, with a larger portion of each generated in the second half of the Company's fiscal year as a result of the Fall and Holiday seasons. The seasonal nature of the Company's business requires the Company to increase its inventory levels prior to the latter half of its fiscal year in preparation for such selling seasons. The casual apparel industry has a significant lead time for design, production and delivery of merchandise and, therefore, the Company must commit to purchase orders and production orders well in advance of the time when such merchandise would be available for sale to consumers. Merchandise orders normally must be placed well in advance of each selling season when customer preferences and fashion trends are not yet evident from customer purchases. Since the Company must enter into commitments and contracts for the purchase of Levi Strauss & Co. brand merchandise and the manufacture of Boston Traders(R) brand merchandise well in advance of each selling season, the Company is vulnerable to changes in consumer demand and pricing shifts and to errors in selection and timing of such merchandise purchases. If the Company fails to accurately forecast consumer demand or if there are changes in consumer preferences or market demand after the Company has committed to such purchase and production orders, the Company may encounter difficulty in liquidating its inventory. These variables may have an adverse effect on the Company and the image of the brands offered for sale by the Company as well as its sales, gross margins and earning results.

DEPENDENCE ON LEVI STRAUSS & CO. MERCHANDISE

Almost all of the Company's revenue is derived from the operation of its retail stores. Except for the Company's Boston Trading Co.(SM) stores, Designs stores and Boston Traders(R) outlet stores, all or substantially all of the merchandise sold to consumers through the Company's stores is merchandise manufactured by Levi Strauss & Co. and its licensees. The Company does not now have, and never has had, any agreement with Levi Strauss & Co. guaranteeing minimum quantities of merchandise to be supplied to the Company, establishing a price structure for the Company's purchases of Levi Strauss & Co. merchandise, or compelling the Company to purchase minimum quantities or specific styles or colors of merchandise. The Company has no assurance that it will be able to continue to purchase merchandise from Levi Strauss & Co. in adequate quantities or on terms that are comparable to those available to other retailers. The Company would be materially and adversely affected by any material reductions in the availability of Levi Strauss & Co. merchandise, any adverse change in Levi Strauss & Co. business, marketing strategy or product mix, or any significant increase in the prices the Company must pay for Levi Strauss & Co. merchandise. The Company also may be materially and adversely affected in the event of negative publicity concerning the reputation of Levi Strauss & Co. or the reputation of its merchandise.

RISK OF RESTRICTION ON USE OF LEVI STRAUSS & CO. TRADEMARKS, SERVICE MARKS, TRADE DRESS AND TRADE NAMES

The Company and the OLS Partnership use certain trademarks, service marks, trade names and brand names of Levi Strauss & Co. in their store names, displays and advertising with the permission of Levi Strauss & Co. The Company has an agreement with Levi Strauss & Co. to use certain Levi Strauss & Co. trademarks on the Company's store signs. The OLS Partnership entered into a license agreement that grants the OLS Partnership the right to use certain service marks, trade names and trade dress owned by Levi Strauss & Co. The Company and the OLS Partnership make no payments to Levi Strauss & Co. or its affiliates with respect to the use of such trademarks, service marks, trade names, and trade dress. The Company, including the OLS Partnership, could be materially and adversely affected by significant limitations imposed on the use of Levi Strauss & Co. trademarks, service marks, trade names, trade dress or brand names.

RISK OF INFRINGEMENT OF THE COMPANY'S TRADEMARKS

The Company is the owner in the United States of the registered trademark "Boston Traders" and certain other trademarks, service marks and trade names. Certain of these marks are also registered, or are the subject of pending applications, in the trademark registries of foreign countries. The Company considers its rights in the Boston Traders(R) trademark and its other marks in the United States and in foreign countries to be valuable assets of the Company which may have a significant influence on the Company's ability to expand. Any infringement upon the Company's Boston Traders(R) trademark or its other trademarks, service marks and trade names or any piracy of the Company's other intellectual property or its products would have a negative impact upon the Company's ability to promote, market and enhance its branded merchandise.

RISK RELATED TO TRANSITION TO A VERTICALLY INTEGRATED RETAILER

For almost 20 years, the Company purchased merchandise exclusively from Levi Strauss & Co. and its licensees. In November 1994, and more significantly in May 1995, the Company undertook a transition from being a single vendor retailer to being a multi-brand vertically integrated retailer offering, in addition to the Levi's(R) and Dockers(R) brands, its own Boston Traders(R) brand of merchandise. As part of this transition, the Company has made significant additions to its management and staff in order to establish product development, product sourcing and logistics capabilities. This transition will require the Company to successfully manage new vertically integrated operations that develop, design, source and distribute Boston Traders(R) brand products. There are no assurances that the Company will be able to successfully continue to transition its operations from a single vendor to a vertically integrated retailer. There are no assurances that the Company will be able to successfully update, enhance and distinguish the Boston Traders(R) brand or develop merchandise that will complement the Levi Strauss & Co. brands sold by the Company. The Company may also be materially and adversely affected in the event of negative publicity concerning the reputation of the Company or its private label merchandise.

STORE EXPANSION RISKS

Levi Strauss & Co. informed the Company that it did not see an opportunity for the Company to increase the number of its Levi's(R) Outlet by Designs stores, nor the number of its Designs stores in the exclusively Levi Strauss & Co. brands format. Accordingly, the Company's ability to continue to increase the number of stores it operates depends, in part, on the Company's ability to successfully develop, open and operate stores that feature Boston Traders(R) brand merchandise and, in part, upon the OLS Partnership's ability to successfully continue to identify, secure, open and operate new Original Levi's(R) Stores(TM) and Levi's(R) Outlet stores within the Territory. Store expansion also depends upon on a number of other general factors including the Company's ability to identify and secure suitable store locations, the negotiation of acceptable lease terms, merchandise availability and the Company's future financial resources. The Company anticipates that new store locations and existing store relocations will continue to be subject to new branch opening approval policies and practices of Levi Strauss & Co. The Company expects to continue to work closely with Levi Strauss & Co. in evaluating product availability for existing and new store locations and must obtain the approval of Levi Strauss & Co. before opening new stores. There are no assurances that the Company will continue to be successful in either obtaining suitable store locations for its new or relocated stores nor in negotiating acceptable lease terms for such locations. Also, there are no assurances that new stores will achieve profitability or that existing profitable stores will remain so. There are no assurances that the Company will be able to develop a new store format featuring the Boston Traders(R) brand, or that, if developed, any new store based upon such store format will be successful.

The OLS Partnership has a ten year term. However, the Partnership Agreement contains certain exit rights that enable either partner to buy or sell their interest in the OLS Partnership, including the right to buy or sell particular stores operated by the OLS Partnership. The Company would be materially and adversely affected if, following January 2000, Levi Strauss & Co. or its affiliates were to purchase profitable Original Levi's(R) Stores(TM) and Levi's(R) Outlet stores owned and operated by the OLS Partnership and either cause to remain in the OLS Partnership or to seek to require an affiliate of the Company to purchase any unprofitable Original Levi's(R) Stores(TM) and Levi's(R) Outlet stores.

INCREASING ADVERTISING COSTS

For almost 20 years the Company has enjoyed the benefit of being closely identified with Levi Strauss & Co. As the Company continues to feature its own and other brands of merchandise, the Company will increasingly rely upon its own advertising and promotional efforts to build and enhance brand image. Historically, the Company has received cooperative advertising allowances from Levi Strauss & Co. that have funded as much as one third of all advertising expenditures. As the Company decreases the proportion of Levi Strauss & Co. brand merchandise, the advertising allowances associated with the Company's advertising will decrease proportionately. Accordingly, the Company's business will require increased expenditures for marketing and advertising. There are no assurances that such increased expenditures will be financially possible or, if undertaken, will result in increased sales.

DEPENDENCE ON CONTRACT MANUFACTURING

The Company's Boston Traders(R) brand products are primarily manufactured outside of the United States and, to a lesser extent, within the United States. To the extent that the Company succeeds in its efforts to expand sales of Boston Traders(R) brand merchandise, the Company will become increasingly dependent upon unaffiliated foreign and domestic firms for the sourcing of its products. Foreign manufacturing and, to a lesser extent, domestic manufacturing are subject to a number of risks, including work stoppages, transportation delays and interruptions, political instability, foreign currency fluctuations, economic disruptions, expropriation, nationalization, the imposition of tariffs and import and export controls and quotas, changes in governmental policies (including United States policies towards these foreign countries) and other factors which could have an adverse effect on the Company's business. Further, revocation of "most favored nation" status for, or the imposition of trade sanctions against foreign countries in which the Company's manufacturers operate could have an adverse affect on the Company's business. The Company has not entered into long-term contractual arrangements with its foreign or domestic manufacturers. The loss of any one or more of its foreign or domestic manufacturers could have an adverse effect on the Company's business until, if at any time, suitable alternative supply arrangements were secured.

SOURCES OF SUPPLY

The Company depends upon its unaffiliated firms to source high-quality fabrics and other products in a timely and cost-efficient manner and relies upon the availability of sufficient production capacity and the ability to utilize alternative sources of supply. In addition, if these sources were to experience significant shortages in raw materials used in the Company's products, it could have a negative effect on the Company's business, including increased costs or difficulty in delivering product.

LITIGATION RISKS

The Company is subject to the normal risks of litigation with respect to its business operations.

FACTORS AFFECTING THE COMPANY'S BUSINESS ARE SUBJECT TO CHANGE

This Report contains cautionary statements concerning certain factors that may influence the business of the Company and are made as of the date of this Report. Such factors are subject to change. The cautionary statements set forth in this Report are not intended to cover all of the factors that may affect the Company's business in the future. Forward-looking information disseminated publicly by the Company following the date of this Report may be subject to additional factors hereafter published by the Company.