SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1999-03-01**
SEC Accession No. 0000950146-99-000608

(HTML Version on secdatabase.com)

FILER

DANSKIN INC

CIK:**889299**| IRS No.: **621284179** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-20382** | Film No.: **99575094**
SIC: **2330** Women's, misses', and juniors outerwear

Mailing Address
111 W 40TH ST
NEW YORK NY 10018

Business Address
111 W 40TH ST
NEW YORK NY 10018
2127644630

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 26, 1998.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission file number 0-20382

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

Delaware	62-1284179
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

530 Seventh Avenue, New York, New York 10018
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 764-4630
Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share, and associated rights

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 registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this annual report on Form 10-K or any amendment to this Form 10-K [ ].

As of March 1, 1999, the aggregate market value of the Common Stock held by non-affiliates of the registrant was $7,252,952. Such aggregate market value was computed by reference to the closing price of the Common Stock as quoted by the National Quotation Bureau on such date.

As of March 1, 1999, there were 21,018,795 shares of the registrant's Common Stock outstanding, excluding 1,083 shares held by a subsidiary.

Unless the context indicates otherwise, the term "Company" refers to Danskin, Inc. and, where appropriate, one or more of its subsidiaries.

DOCUMENTS INCORPORATED BY REFERENCE
None.

DANSKIN, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Page

PART I

Item 1. Business
Item 2. Properties
Item 3. Legal Proceedings
Item 4. Submission of Matters to a Vote of Security Holders

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters
Item 6. Selected Consolidated Financial Data
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 7A. Quantitative and Qualitative Disclosure About Market Risk
Item 8. Financial Statements and Supplementary Data
Item 9. Changes in and Disagreements with Accountants on

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Accounting and Financial Disclosure

PART III

Item 10. Directors and Executive Officers of the Registrant
Item 11. Executive Compensation
Item 12. Security Ownership of Certain Beneficial Owners and Management
Item 13. Certain Relationships and Related Transactions

PART IV

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

SIGNATURES

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULES

PART I

Statements contained herein and in the future filings by the Company with the Securities and Exchange Commission, in the Company's press releases, and in oral statements made by or with the approval of authorized personnel that relate to the Company's future performance, including, without limitation, statements with respect to the Company's anticipated results of operations or level of business for 1999 or any other future period, shall be deemed forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as a number of factors affecting the Company's business and operations could cause actual results to differ materially from those contemplated by the forward-looking statements. Such statements are based on current expectations and involve known and unknown risks and uncertainties and certain assumptions, referred to below, and are indicated by words or phrases such as "anticipate," "estimate," "project," "management expects," "the Company believes," "is or remains optimistic" or "currently envisions" and similar words or phrases. These factors include, among other, changes in regional, and global economic conditions; risks associated with changes in the competitive marketplace, including the level of consumer confidence and spending, and the financial condition of the apparel industry and the retail industry, as well as adverse changes in retailer or consumer acceptance of the Company's products as a result of fashion trends or otherwise and the introduction of new products or pricing changes by the Company's competitors; risks associated with the Company's dependence on sales to a limited number of large department store and sporting goods store customers, including risks related to customer requirements for vendor margin support, and those related to extending credit to customers; risks associated with consolidations, restructurings and other ownership changes in the retail industry; uncertainties relating to the Company's ability to implement its growth strategies; risks associated with the ability of the Company and third party customers and suppliers to timely and adequately remediate any Year 2000 issues; and risks associated with changes in social, political, economic and other conditions affecting foreign sourcing.

ITEM 1. BUSINESS

The Company designs, manufactures and markets several leading brands of women's activewear, dancewear and legwear. Danskin(R), and Round-the-Clock(R) are the Company's principal proprietary brands. The Company also manufactures the Givenchy(R) women's legwear brand pursuant to a license agreement. The Company recently acquired the rights to manufacture and market luxury sheer hosiery under the Ralph Lauren(R), Lauren/Ralph Lauren(R), and Ralph/Ralph Lauren(R) trademarks. In addition to its branded merchandise, the Company manufactures and markets private label merchandise, principally legwear, for many major retailers, including most full line department stores. The Company currently operates as two divisions: Danskin Division for activewear and Pennaco for legwear.

Danskin(R) is a leading brand of women's activewear, legwear, and dancewear in the United States, enjoying a brand awareness factor of over 71% among American women. The Company manufactures and sells activewear, dancewear and legwear to girls and women under the Danskin(R) label and to large-size women under the Danskin Plus(R) label. Although known for its design of seasonal fashion offerings and its wide range of colors, currently approximately 70% of the Danskin Division's net revenues are attributable to basic styles, with black being the most popular color. The Company currently licenses the Danskin(R) brand to manufacturers of women's underwear, children's socks and cycling wear. The Danskin Division produces over 80% of its activewear products at its plant in York, Pennsylvania and is one of the only major suppliers of branded women's activewear with substantial domestic manufacturing capacity. The Company believes that its domestic manufacturing facility allows it to respond to customer orders quickly and also allows its designers to respond quickly to

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

market trends.

The Company's Danskin Division operates three full-priced stores and 43 outlet stores in 21 different states. The Company's outlet stores, in addition to offering in-line merchandise, provide a distribution channel for irregular and excess inventory. The Company is presently contemplating closing certain unprofitable outlet stores, downsizing certain locations, and selectively opening full price stores during the next two years.

Pennaco hosiery is widely recognized for its quality, fit and innovation. Pennaco is one of the oldest manufacturers of hosiery in the United States and the second largest supplier of sheer hosiery to domestic, full line department stores and apparel specialty stores, as well as being a leading supplier of private label hosiery to these stores. The Company markets Round-the-Clock(R), which has been in the market since 1919, as well as two licensed brands of hosiery: Ralph Lauren(R) and Givenchy(R).

STRATEGY

The Company's market includes products intended for activewear, dancewear and legwear. The Company has developed a diversified portfolio of quality branded and private label products that can be offered to consumers at varying price points through its channels of distribution. The Company's objectives are (i) to expand its portfolio of products in order to become a complete activewear and legwear resource by capitalizing on the strong name recognition of its proprietary and licensed brands and (ii) to expand its distribution channels for activewear through department stores and through international channels of distribution. Key elements of the Company's strategy include the following:

Danskin(R), Danskin Plus(R), Dance France(R) and Round-the-Clock(R) are registered trademarks of Danskin, Inc. Givenchy(R) is a registered trademark of Givenchy S.A., Ralph Lauren(R), Lauren/Ralph Lauren (R) and Ralph/Ralph Lauren(R) are registered trademarks of PRL USA, Inc. and the Polo/Lauren Company, L.P. Lycra(R) is a registered trademark of E.I. DuPont de Nemours & Co., Inc.

Expansion of Danskin(R) Product Lines

The Company introduced a variety of new activewear products in 1998. This expansion included Dry Zone(TM) and the Company's Danskin Packables(TM) line.

Dry Zone is a revolutionary new moisture management fabric designed to regulate body temperature. This fabric combines technical innovation with comfort and style, offering the Danskin customer an alternative performance fabric.

The Packables(TM) line was designed to be offered primarily in the hosiery departments of department and better specialty stores and features an accessible product (initially offered on main floor), an innovative design (superior styling coupled with an exclusive technical fabric that resists wrinkles), and a unique concept (a mix and match ensemble that is "Good to Go"). The Packables(TM) line afforded the Company the opportunity to speak to retailers and consumers about Danskin(R) as addressing the needs of today's active consumer beyond the gym.

To continue to move Brand Danskin beyond its traditional stretch bodywear platform, the Company intends to introduce Zen Sport from Danskin in Fall 1999. The Zen Sport line collection strikes a balance between active and casual wear with apparel made from environmentally safe materials, such as organically grown cotton and vegetable-based dyes. Zen Sport from Danskin responds to a woman's need for clothing that is suited to low impact activities such as yoga, meditation and stretching exercises.

The Company believes that its new product offerings, such as Dry Zone(TM), Danskin Packables(TM), and Zen Sport from Danskin(TM), which complement its traditional strength in stretch bodywear and legwear, are representative of the kinds of products and innovation that will advance its "Primary Resource" strategy and broaden the positioning of the Danskin brand to the consumer beyond `activewear' to one of `active lifestyle.' Also, with the addition of these offerings, the Company believes that it will be successful in expanding the visibility of Brand Danskin not only in the department store class of trade (Brand Danskin offered for sale in many more departments) but also beyond its traditional channels of distribution to alternative channels such as the Internet (through various retailer web sites), retailer catalog direct mail distribution, and home shopping television channels.

International Sales Expansion

The Company believes that the Danskin(R) brand enjoys recognition in many foreign markets. Accordingly, the Company has targeted international markets as a potential source of growth. It is exploring distribution in foreign countries. Export net sales over the past three full fiscal years were $6.7 million for fiscal 1996, $6.3 million for fiscal 1997, and $5.9 million for fiscal 1998.

Licensing of Danskin(R) Name

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Company currently licenses the Danskin(R) brand to manufacturers of women's and girl's underwear, children's socks and cycling wear. The Company believes that there is an opportunity to license the Danskin(R) name for additional product categories, such as children's sportswear, swimwear, sunglasses, watches, personal care products and outerwear. The Company believes that selective licensing enhances the value of its brands, by expanding the opportunities for retail purchases of its brands, affording cross-marketing and merchandising opportunities and providing additional product categories for sale in Company-owned stores.

Store Strategy

Recognizing that the Company's retail stores provide a platform for capitalizing on the strong brand awareness enjoyed by Danskin, provide a channel of distribution where the Company can showcase its product, and act as a laboratory for product innovation, the Company is taking steps to revitalize its retail operations, including closing under-performing locations, downsizing certain locations, re-merchandising the stores, installing a point-of-sale system in all locations to provide critical inventory and sales information and implementing visual merchandising programs in all locations to achieve a consistent and identifiable retail impression and presence.

Outlet Stores - The Company continues to evaluate the performance of its outlet locations, renegotiating the leases on or closing certain under-performing stores, and limiting the number of new outlet stores it opens each year. In addition, in order to improve the operating performance of its outlet stores, the Company has adjusted the stores' merchandise mix and ordering practices, providing for the automatic replenishment of product as determined by model stock levels.

Full Price Retail Stores - Since 1991, the Company has operated a full price retail store in Santa Monica, California, originally under the Dance France(R) name and presently under the Danskin(R) name. In November 1995, the Company opened a full price retail store under the Danskin(R) name on Columbus Avenue in New York City, followed in February 1996 by a second store in Miami's South Beach. The Company recently signed a lease for a full price retail store in the SoHo section of New York City. It presently anticipates operating in this location by the first quarter of 2000. The Company believes that the Danskin(R) name recognition of over

71% among American women and the brand's reputation for fit, comfort and durability provide the Company with an opportunity to successfully open additional full price Danskin(R) stores in freestanding metropolitan and upscale mall locations. These stores offer the Company's consumers a wider assortment of Danskin(R) merchandise by carrying an inventory of approximately 1,500 SKU's (stock keeping units), contrasted with only approximately 150 SKU's maintained at any one time by even the largest retailer of Danskin(R) products. In addition to expanding a channel of distribution for the Company's products, the Company believes these stores are an effective form of consumer advertising and help "showcase" the full assortment of its activewear merchandise. The Company believes there are ample opportunities for selective national expansion of its full price retail strategy.

E-Commerce - The Company is in the process of exploring its alternatives for the marketing and distribution of its activewear and legwear products over the internet. The Company believes that the internet will provide it with a distribution channel that would allow it to offer the full complement of its product lines while reaching a broader audience than is presently available to it in any existing channel of distribution.

Establishment of the Company as a Complete Legwear Resource

Pennaco is the number two sheer hosiery resource (behind Sara Lee Corporation) in most domestic, full line department stores, and enjoys a reputation for the fit and sheer quality of its products, private label offerings, reliable shipping performance and brand diversity. The Company is also a major supplier of private label sheer hosiery sold by these department stores. The Company has developed initiatives for each of its legwear brands to penetrate new market niches. These include the introduction of new, supersheer products, value oriented multipacks and expanded plus size offerings. In addition, recognizing the trend towards more casual dressing, the Company has placed a focus on increasing its casual business, including socks, trouser socks and tights.

PRODUCTS

Activewear

The Company designs, manufactures and markets women's and girl's activewear (including bodywear, cover-ups and outerwear) and dancewear under the Danskin(R) label.

Danskin realizes approximately 70% of activewear revenues from basic styles, with black being the single most popular color. Activewear products are

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

generally designed in four seasonal fashion groupings, with a monthly introduction of new styles or colors. In an effort to improve margins and minimize operating complexity, the Company continually reviews and eliminates low-volume SKU's from its product offerings. The total number of SKU's for activewear is approximately 4,700.

Danskin(R) activewear products sell at retail prices ranging from $4.50 to $64.00.

Legwear

Pennaco is one of the oldest manufacturers of hosiery in the United States and is the second largest supplier of women's sheer hosiery and legwear to domestic, full line department stores and apparel specialty stores and a major supplier of private label hosiery to these stores. Approximately 36% of the Company's annual legwear revenues consist of sales of its private label merchandise. Pennaco hosiery is widely recognized for its quality, fit and innovation. Through its proprietary brand, Round-the-Clock(R), the Company was the first manufacturer to introduce multiple sizes and colors in pantyhose, and was a pioneer in the application of spandex (Lycra(R)) yarns to hosiery.

Recognizing the trend towards more casual dressing, the Company has increased its product offerings for the casual legwear market. It has designed a collection of socks, trouser socks and tights to fill a void in the products the Pennaco Division historically offered. The Company anticipates that its casual program will be a source of additional growth within the division.

During fiscal 1998, the Company manufactured and sold two licensed brands of hosiery: Givenchy(R) and Anne Klein(R), which represented approximately 27% and 5% of legwear revenues, respectively for the fiscal year ended December 26, 1998. Pennaco introduced Givenchy Hosiery in 1979. Effective January 1, 1999 the Company renewed the Givenchy(R) license agreement for an additional three (3) years, subject to renewal under certain circumstances. The Givenchy(R) license agreement covers the United States, Canada and Mexico and expires on December 31, 2001. Anne Klein(R) legwear was initially launched by Pennaco Hosiery in 1991. The license with Anne Klein & Company expired on December 31, 1998. The Company determined not to renew the Anne Klein(R) license.

Givenchy(R) sheer hosiery retails in a price range of $3.50 to $13.00 and Round-the-Clock(R) Girdle at the Top(TM) retails in a price range of $11.50 to $12.50 with the Take Two Value Pack, retailing at $3.95 to $8.95.

As of December 1, 1998, the Company signed a licensing agreement with PRL USA, Inc. and the Polo/Lauren Company L.P. for the manufacture and distribution of luxury sheer hosiery. The Ralph Lauren Agreement covers the United States of America, its territories and possessions, Canada and Mexico and extends, under certain circumstances, through 2007, if the Company were to meet certain agreed upon minimum net sales levels.

Although the Company is required to maintain a high number of legwear SKU's because of the complex packaging requirements of its private label customers, it knits only 160 styles. Product is held in an undyed state and is dyed, finished and packaged in accordance with forecasted demand. Over the past year, the Company has aggressively reduced both the number of legwear styles and SKU's it produces, which has contributed to improved gross margins.

MARKET SEGMENTATION

Activewear

The Company sells its activewear products to approximately 3,290 accounts, representing over 5,380 stores. These products are targeted towards different segments of the wholesale market. Danskin(R) and Danskin Plus(R) (activewear for the large-sized woman) products are marketed to major sporting goods stores, such as The Sports Authority, Lady Footlocker and Oshman's Sporting Goods, full line department stores, including Dillard's, Nordstrom, Lord & Taylor, Federated Department Stores (including Burdine's and Macy's) and Belk Stores, and many smaller sporting goods and specialty stores. The Company continues to re-evaluate its product offerings to gain additional penetration in the activewear market in department stores.

Legwear

The Company sells its legwear products to approximately 915 accounts, representing over 2,450 stores. The customer base for its legwear consists primarily of full line department stores and apparel specialty stores, including Federated Department Stores (including Macy's and Bloomingdale's), May Co. stores (including Kaufmans, Filenes, Hecht, Famous Barr, Robinson May, Foleys, Meier and Frank and Lord & Taylor), Dillards, Dayton Hudson - Marshall Field's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Carson Pirie Scott and Talbot's (including its catalog).

The Company provides a diversity of legwear products to its customer base at each price/quality level, and seeks market niches for product expansion. Within the legwear market, the market is divided principally by retail price points,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

with designer brands, such as Ralph Lauren(R), occupying the upper price point positions with generally higher gross margins, brands such as Lauren/Ralph Lauren(R) and Givenchy(R) occupying the upper middle price point position, and brands such as Round-the-Clock(R) occupying the middle price point positions and private label products at varied price points, depending upon the retailer's brand image.

In the third quarter of fiscal 1998, the Company introduced its Round-the-Clock(R) Take Two value pack, which packages two pairs of hosiery in a single package at a suggested retail lower than two pairs purchased individually. Currently available in department stores, the value pack strategy is the outgrowth of the Company's realization that the department store consumer has become desensitized by repetitive price promotion, combined with the acknowledgement that the Company needed to address the overall decline in the sheer category and such declines effects on sales of the Round-the-Clock(R) brand. Take Two offers the department store consumer the fit, quality and style of the Round-the-Clock(R) brand at a value oriented price point.

STORE OPERATIONS

Full Price Retail

Since 1991, the Company has also operated a full price retail store in Santa Monica, California, originally under the Dance France(R) name and presently under the Danskin(R) name. In November 1995, the Company opened a full price retail store under the Danskin(R) name on Columbus Avenue in New York City, followed in February 1996 by a second store in Miami's South Beach. These stores are designed exclusively for women and offer a wide assortment of Danskin(R) products. The Company believes that the full price store concept will be applicable in other major metropolitan areas and in selected upscale mall locations in the United States, and it presently intends to further test that concept by selectively opening new full price retail locations in the next two years.

The Company recently signed a lease for a full price retail store in the SoHo section of New York City. It presently anticipates operating in the location by the first quarter of fiscal year 2000.

In light of disappointing revenue and profitability levels, the Company has determined to close its retail operation at its current South Beach location. The Company is reviewing its options for maintaining a retail presence within the South Beach market.

The Company's New York City store covers approximately 2,500 square feet, the Santa Monica store covers approximately 1,100 square feet and the South Beach store covers approximately 6,000 square feet. The Company presently anticipates that any full price stores opened in the future would range in size from approximately 1,500 to 2,000 square feet each. The Company estimates that capital expenditures for each store of this size range will average approximately $400,000, and that each such store will require approximately $150,000 of inventory.

Outlets

The Company currently operates 43 outlet stores located in 21 different states, situated in areas where the Company believes they generally do not compete with the Company's principal channels of distribution. They range in size from approximately 1,800 to 12,000 square feet, with the average being approximately 4,900 square feet. These stores historically provided a channel of distribution for closeout merchandise. The Company has, however, taken steps which have improved inventory turns and margins for its outlet stores. See "--Strategy -- Store Strategy -- Outlet Stores."

OPERATIONS

Activewear

The Company manufactures over 80% of its activewear products at its 275,000 square foot plant in York, Pennsylvania and is one of the only major suppliers of branded women's activewear with substantial domestic manufacturing capacity. The Company believes that manufacturing domestically allows it to respond to customer orders quickly and also allows its designers to respond quickly to market trends, thus enabling the Company to defer authorization of fabric cutting until product samples have been seen by buyers. In order to complement the York plant, the Company operates a sewing facility in Mexico, under NAFTA, that currently produces activewear products with lower costs on a contract basis. This facility provides the activewear plant with expansion opportunities, while retaining the quick response and flexibility afforded by being a domestic manufacturer. In addition, as the Company progresses in its strategy of diversification of its activewear product offerings, it expects to source an

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

increasing proportion of total production through offshore contractors. Specifically, the Company has an agreement with Li & Fung (Trading) Limited ("Li & Fung"), pursuant to which Li & Fung has agreed to act as a non-exclusive buying agent of the Company to assist the Company in purchasing merchandise in certain foreign countries.

The York plant has a dyeing facility, which enables the Company to hold basic garments in an undyed state and then to dye them when customer orders are received, thereby minimizing inventory risk and inventory levels. The Company is also able to do its own screen printing at this facility. Distribution of activewear is made from the Company's distribution center in York, Pennsylvania.

Legwear

The Company manufactures its hosiery in its 281,000 square foot facility in Grenada, Mississippi. The facility's current capacity is approximately 50,000 dozen pairs per week, and the Company is currently producing approximately 25,000 dozen pairs per week. Actual production varies according to seasonal requirements. The plant operates over 412 high-speed knitting machines and has a state-of-the-art dyeing facility that has helped make Pennaco a recognized leader in the industry for its fashion and color offerings. Legwear distribution facilities are also located in Grenada, Mississippi. In addition, the Company recently acquired 42 state-of-the-art knitting machines, which enable it to remain a market leader in innovation and quality.

The Company continues to process a substantial and increasing portion of its customer orders through EDI programs, which permit the electronic receipt of purchase orders and, in some cases, the electronic transmission of invoices. In addition, the Company has established a "New Quick Response Program" for certain high volume styles, which has enhanced its EDI replenishment capabilities and has enabled it to ship products within five days of receiving an order.

SALES

The Company's domestic sales force presently consists of approximately 31 sales people; 19 of whom are responsible for the Company's activewear product lines and 12 of whom are responsible for the Company's legwear product lines to department stores, apparel specialty stores, sporting goods retailers and smaller specialty stores.

The Company periodically reviews the structure of its sales force and makes adjustments based on the Company's needs. Recognizing the unique opportunities available to each of Danskin Division and Pennaco, as well as the challenges faced by each division, the Company determined, during fiscal 1998, to appoint a President of each division with responsibility for the sales efforts of the division. Denise Landman, formerly SVP Sales for Danskin, Inc. was appointed President of the Pennaco Division and Gene Gsell, formerly with The Timberland Company, was appointed President of the Danskin Division. The Company then restructured its activewear sales force to address the multiple channels of trade in which Danskin product is sold. Specifically, each of the department store, sporting goods store and specialty store class of trade has a dedicated activewear sales force. The Company believes that a channel dedicated sales force, led by a divisionally focused executive, will enable it to successfully segment its activewear line, properly position its product extensions, and reach the ultimate consumer where she shops.

Export sales are generally made to international distributors, with the exception of Canada, where the Company utilizes independent sales representatives to market Danskin(R) activewear directly. The Company continually explores further opportunities in export sales.

The Company emphasizes its commitment to customer service through a staff of area representatives, located throughout the country, whose principal responsibility is field merchandising of legwear products in department stores. These representatives are present in the stores during peak consumer traffic periods; they merchandise the selling fixtures, instruct store personnel about effective selling techniques, conduct seminars, interact directly with consumers and are available to support in-store events and promotions, all with the goal of maximizing sales of the Company's products. To a lesser extent, they also merchandise the Company's activewear products in department stores and certain sporting goods stores.

The Company also maintains an `inside sales' force who partner with the sales associates. This enables the Company to be available to its customers even within the largest, most geographically diverse territories.

MARKETING

For both legwear and activewear, the Company continues to promote and market its products through unique promotions and point-of-sale materials keyed to the Company's visions of either a complete legwear resource or as an active lifestyle brand, including product demonstrations, fashion shows, giveaways, and clinics.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

One of the Company's principal promotional vehicles for activewear continues to be its title sponsorship and ownership of the Danskin(R) Women's Triathlon Series, an annual series of triathlon competitions for women. The Company uses the Series as a promotional event for both retailers and consumers, offering seminars at retail stores for participants prior to the race event in each location. The Company further evidences its support of women's programs by donating all of the triathlon entry fees to the Susan G. Komen Breast Cancer Foundation.

Historically, the Company sponsored "Team Danskin," a group of world class women athletes from a variety of sports to allow the Company to direct its marketing efforts toward women who actually participate in specific sporting activities. The Company has determined not to continue to retain the services of the team members, but to target specific marketing needs with specific individuals representative of the focused sporting activity and to compensate such individuals for their participation.

Legwear marketing programs consist primarily of in-store promotions, co-operative advertising and in-store legwear seminars, which are designed to teach the stores' sales personnel how to sell the Company's products.

SUPPLIERS

The Company's raw materials consist principally of piece goods and yarn that are purchased by the Company from a number of domestic and foreign textile mills and converters. The Company obtains Lycra(R) from DuPont. Although from time to time there have been shortages of Lycra(R), such shortages have not adversely affected the Company. The Company does not have long-term formal arrangements with any of its suppliers. However, the Company, to date, has been able to satisfy its raw material requirements and considers its sources of supply adequate.

TRADEMARKS

The Company owns and utilizes a variety of trademarks, the principal ones being Danskin(R) and Round-the-Clock(R). The Danskin(R) trademark is owned by the Company worldwide, except in Japan, and is registered with the United States Patent and Trademark Office and in most other major jurisdictions of the world. In Japan, the trademark is owned by the Company's former licensee, Goldwin, Inc., with whom the Company has a long-term cooperation agreement.

Certain of the Company's other trademarks are registered with the United States Patent and Trademark Office and in some foreign jurisdictions as well. The Company regards its trademarks and other proprietary rights as valuable assets and believes that they have significant value in the marketing of its products. The Company actively protects its trademarks against infringement.

REGULATION

The Company is subject to various federal, state and local environmental laws and regulations limiting the discharge, storage, handling and disposal of a variety of substances, particularly the federal Water Pollution Control Act, the Clean Air Act of 1970 (as amended in 1990), the Resource Conservation and Recovery Act (including amendments relating to underground tanks) and the federal "Superfund" program. The Company cannot with certainty assess at this time the impact upon its operations or capital expenditure requirements of future emission standards and enforcement practices under the 1990 amendments to the Clean Air Act.

In connection with the refinancing of its bank loan agreement in the fourth quarter of fiscal year ended December 27, 1997, the Company engaged an independent environmental consulting firm to conduct assessments of environmental conditions at the Company's manufacturing and distribution facilities in York, Pennsylvania and Grenada, Mississippi. No material environmental

problems were discovered in these assessments.

The Company also is subject to federal, state and local laws and regulations relating to workplace safety and worker health, including those promulgated under the Occupational Safety and Health Act ("OSHA"). As part of its OSHA compliance efforts, the Company requires all personnel working in high noise areas and those working in certain areas with high concentrations of dust to wear protective equipment.

The Company believes that it currently is in compliance in all material respects with existing OSHA standards and environmental laws and regulations. The Company does not believe that there is a substantial likelihood that further OSHA or environmental compliance will require substantial expenditures or materially affect its operations or competitive position.

EMPLOYEES

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

As of March 1, 1999, the Company employed approximately 1,463 persons, of whom 996 were employed out of Danskin's York, PA facility, 441 were employed out of the Pennaco facility in Grenada, MS and the remainder were employed at the Company's executive offices. At such date, 1,175 of the Company's employees were paid on an hourly basis, and the remainder were salaried employees. Although there have been attempts to organize certain of its employees in the past, none are currently represented by a union, and employee relations are generally considered to be good.

COMPETITION

The apparel industry is highly competitive. Many of the Company's competitors are larger and have greater financial, distribution, marketing and other resources, and better established brand names, than the Company. The Danskin(R) brand competes with products sold by an array of smaller and larger companies, including Nike, Reebok, Adidas, Fila, Champion, AuthenticFitness and Weekend Exercise Company. Legwear products compete with products sold by a number of other established manufacturers and marketers, the largest of which is the Hanes division of Sara Lee Corporation, while other significant competitors include Jockey International, Inc., Kayser-Roth Corp. and Ithaca Industries, Inc. The Company does not market its legwear either in the mass market channel of distribution or in food or drug stores.

ITEM 2. PROPERTIES

The Company leases its principal executive offices and showroom located at 530 Seventh Avenue in New York City. Such lease provides for an average annual base rent of approximately $736,000 and expires in December 2008. The Company remains liable on its lease obligation for its former executive offices and showroom located at 111 West 40th Street in New York City. Such lease provides for annual base rent of $748,000 and expires in December 2001. However, the Company receives income from subtenants aggregating approximately $664,546 on an annual basis. The subleases are co-terminous with the Company's lease obligation, which expires in December 2001.

The Danskin Division plant is located in York, Pennsylvania and contains office space, inventory storage space and a shop area where substantially all of the Company's activewear products are manufactured. This facility is owned by the Company. Danskin also leases a distribution facility in York, Pennsylvania. Such lease provides for annual rent of $424,000 and expires in September 1999. The Company is reviewing its options with respect to its distribution facility; it believes, however, that it will be able to extend the term of its current lease if it determines that that is the best course of action.

The Pennaco mill is located in Grenada, Mississippi and contains office space and inventory storage space where substantially all the hosiery products manufactured by the Company are produced. The Company leases this facility from the city of Grenada for a nominal rent through the year 2065. The distribution center is also leased from the city of Grenada for annual rent of $333,000, under a lease that expires in December 2008.

The Company also has committed to lease space for 46 retail stores at annual rents ranging from $17,000 to $300,000 under leases expiring during the fiscal year ending 1999 through 2015. Two outlet store leases expire in 1999. The Company continually reviews the operations and profitability of its retail locations and will make lease renewal determinations based upon such review. The Company may also, as a result of such review, attempt to negotiate additional lease terminations.

Dissatisfied with the revenue and profitability levels of its owned-retail location in Reading, Pennsylvania, the Company sold such property in the fourth quarter of 1998 for gross proceeds totaling $1 million.

The Company believes that its facilities provide adequate levels of capacity for current levels of production as well as for reasonable levels of additional growth. None of the Company's properties is leased from any affiliated entity.

Substantially all of the Company's properties and other assets are pledged to Century Business Credit Corporation (CBCC) to secure the Company's obligations under the Loan and Security Agreement with CBCC. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" and Note 11 in the Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

On November 25, 1996, the Company commenced suit against Herman Gruenwald, former President, Director and Principal shareholder of Siebruck Hosiery Ltd. ("Siebruck") for damages in the amount of $1,450,000 in the Superior Court, Montreal. The claim relates to unreported sales in excess of $1.5 million arising under a license agreement entered into by and between the Company and

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Siebruck, which expired on December 31, 1995. Siebruck was placed under the provision of the Canadian Bankruptcy and Insolvency Act. Mr. Gruenwald's statement of defense included a cross-demand against the Company wherein he is claiming damages to his reputation in the amount of Cdn. $3.0 million. A reasonable evaluation of the claim against the Company cannot be made at this time. However, the Company does not presently anticipate that the ultimate resolution of such claim will have a material adverse impact on the financial condition, results of operations, liquidity, or business of the Company.

The Company is a party to a number of other legal proceedings arising in the ordinary course of business. Management believes that the ultimate resolution of these proceedings will not, in the aggregate, have a material adverse impact on the financial condition, results of operations, liquidity or business of the Company.

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

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock was traded over-the-counter on the NASDAQ National Market under the symbol "DANS" until August 8, 1996, at which time it was moved to The NASDAQ SmallCap(TM) Market under the same symbol. Effective June 27, 1997, the Company's Common Stock was delisted due to the Company's non-compliance with NASDAQ's minimum capital and surplus requirement. Bid quotations for the Company's Common Stock may be obtained from the "pink sheets" published by the National Quotation Bureau, and the Common Stock is traded in the over-the-counter market. The following table presents the quarterly high and low bid quotations during the last two fiscal years, including for each of the three months ended March 29, 1997 and June 27, 1997, during which time the Common Stock was listed on the NASDAQ SmallCap Market(TM) and for each of the quarters thereafter, during which time the Common Stock was no longer traded on the NASDAQ Small Cap Market(TM). These quotations reflect the inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

The Company does not presently intend to apply for listing of the Common Stock on the NASDAQ National Market or the NASDAQ Small Cap Market(TM) in the immediate future.

	High	Low
Fiscal Year Ended December 27, 1997		
Three-month period ended March	$2.750	$2.000
Three-month period ended June	2.375	0.500
Three-month period ended September(1)	1.500	0.563
Three-month period ended December	1.188	0.500
Fiscal Year Ended December 26, 1998		
Three-month period ended March	$2.250	$0.480
Three-month period ended June	2.750	1.375
Three-month period ended September	2.125	1.000
Three-month period ended December	1.687	0.687

As of December 26, 1998, the number of stockholders of record of the Company's Common Stock was approximately 162.

----

(1) Since June 27, 1997, the Common Stock has traded solely in the over-the-counter market. Accordingly, bid quotations for the Common Stock for periods after June 27, 1997 were available only from the "pink sheets" published by the National Quotation Bureau. Such bid quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

The Company has not declared any cash dividends with respect to the Common Stock subsequent to the effective date of its initial public offering, August 19, 1992. The Company's Loan and Security Agreement with CBCC prohibits the payment of dividends without the lender's consent.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Commencing with the nine months ended December 30, 1995, the Company changed its fiscal year end to the last Saturday in December. The following selected consolidated operating data for each of the two years in the fiscal year ended March 1994 and March 1995, the two fiscal nine months ended December 24, 1994 and December 30, 1995, and the four fiscal twelve months ended December 30, 1995, December 28, 1996, December 27, 1997 and December 26, 1998, and the financial position for each of the periods then ended, have been derived from the consolidated financial statements of the Company. The twelve month period ended December 30, 1995 is herein referred to as the "Twelve Months 1995"; the nine-month period ended December 30, 1995 is referred to as "Nine Months 1995"; and the nine-month period ended December 24, 1994 is referred to as the "Nine Months 1994." The data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, including the Notes thereto, of the Company, appearing elsewhere in this Annual Report on Form 10-K.

<TABLE>
<CAPTION>

	Fiscal Years Ended March		Fiscal Nine Months Ended December	
	(in thousands, except per share amounts)			
	1994	1995	1994	1995
INCOME STATEMENT DATA:				
<S>	<C>	<C>	<C>	<C>
Net revenues				
Danskin	$71,814	$74,608	$55,003	$56,732
Pennaco	59,683	53,510	40,964	37,055
Total	131,497	128,118	95,967	93,787
Cost of goods sold				
Danskin	42,797	45,979	33,769	35,028
Pennaco	43,207	41,367	31,640	27,153
Total	86,004	87,346	65,409	62,181
Gross profit				
Danskin	29,017	28,629	21,234	21,704
Pennaco	16,476	12,143	9,324	9,902
Total	45,493	40,772	30,558	31,606
Selling, general and administrative expenses	43,847	44,077	32,038	29,851
Non-recurring charges (1)	6,244	4,143	1,645	1,100
Interest expense	2,343	3,928	2,684	3,699
(Loss) before provision for (benefit from) income taxes, cumulative effect of a change in accounting method and extraordinary item	(6,941)	(11,376)	(5,809)	(3,044)
Provision for (benefit from) income taxes (2)	370	(1,719)	(1,524)	178
(Loss) before cumulative effect of a change in accounting method and extraordinary item	(7,311)	(9,657)	(4,285)	(3,222)
Cumulative effect of a change in accounting method	250	---	---	---
Extraordinary item (3)	---	---	---	---
Net (loss) income	(7,061)	(9,657)	(4,285)	(3,222)
Preferred Stock dividend	---	---	---	---
(Loss) applicable to Common Stock	($7,061)	($9,657)	($4,285)	($3,222)
Basic and diluted net (loss) per share				
Net (loss) per share before extraordinary item (4)	($1.14)	($1.51)	($0.67)	($0.50)
Net income per share for extraordinary item (3)	---	---	---	---
Cumulative effect of a change in accounting method	0.04	---	---	---
Net (loss) per share after extraordinary item	($1.10)	($1.51)	($0.67)	($0.50)
Weighted average number of common shares outstanding	6,408	6,396	6,392	6,415

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Working capital	$17,066	$17,618	$19,585	$25,656
Total assets	74,481	77,741	81,601	67,742
Long-term debt (excludes current obligations)	13,850	24,399	22,743	36,666
Total debt (5)	38,371	45,725	44,083	41,101
Total stockholders' equity	13,408	5,195	9,233	1,519

</TABLE>

<TABLE>
<CAPTION>

	Twelve Months Ended	Fiscal Years Ended December		
	(in thousands, except per share amounts)			
	1995	1996	1997	1998
INCOME STATEMENT DATA:				
<S>	<C>	<C>	<C>	<C>
Net revenues				
Danskin	$76,337	$80,608	$81,158	$73,468
Pennaco	49,601	47,537	40,828	35,273
Total	125,938	128,145	121,986	108,741
Cost of goods sold				
Danskin	47,244	49,056	52,314	44,805
Pennaco	36,874	34,554	29,508	23,623
Total	84,118	83,610	81,822	68,428
Gross profit				
Danskin	29,093	31,552	28,844	28,663
Pennaco	12,727	12,983	11,320	11,650
Total	41,820	44,535	40,164	40,313
Selling, general and administrative expenses	41,895	42,026	40,174	42,112
Non-recurring charges (1)	3,598	--	300	2,419
Interest expense	4,943	4,721	4,278	2,513
(Loss) before provision for (benefit from) income taxes, cumulative effect of a change in accounting method and extraordinary item	(8,616)	(2,212)	(4,588)	(6,731)
Provision for (benefit from) income taxes (2)	(20)	2,777	245	190
(Loss) before cumulative effect of a change in accounting method and extraordinary item	(8,596)	(4,989)	(4,833)	(6,921)
Cumulative effect of a change in accounting method	---	---	---	---
Extraordinary item (3)	---	---	5,245	---
Net (loss) income	(8,596)	(4,989)	412	(6,921)
Preferred Stock dividend	---	202	425	1,114
(Loss) applicable to Common Stock	($8,596)	($5,191)	($13)	($8,035)
Basic and diluted net (loss) per share				
Net (loss) per share before extraordinary item (4)	($1.34)	($0.80)	($0.66)	($0.50)
Net income per share for extraordinary item (3)	---	---	$0.66	---
Cumulative effect of a change in accounting method	---	---	---	---
Net (loss) per share after extraordinary item	($1.34)	($0.80)	($0.00)	($0.50)
Weighted average number of common shares outstanding	6,415	6,513	7,942	16,168
Working capital	$25,656	$24,559	$19,070	$6,545
Total assets	67,742	66,940	55,022	57,706

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Long-term debt (excludes current obligations)	36,666	31,589	9,667	6,674
Total debt (5)	41,101	41,558	21,539	24,703
Total stockholders' equity	1,519	801	1,681	(3,900)

</TABLE>

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA (continued)

(1) Non-recurring charges of $2.4 million for the fiscal year ended December 26, 1998 consisted of costs related to certain executive employee severance costs, provision established for the remaining net lease obligation for the former corporate office on 111 W. 40th Street in New York City and write-offs of non-operating assets, offset by the recognition of the Sea & Ski Receivable and the gain on the sale of the Reading, PA outlet store. Non-recurring charges of $300,000 for the fiscal year ended December 27, 1997, consisted of certain executive employee severance costs. Non-recurring charges were $1.1 million for the nine months ended December 30, 1995 and consisted of losses on certain license arrangements and certain executive employee severance costs. Non-recurring charges were $4.1 million (net of $0.7 million in related party interest income) for the fiscal year ended March 25, 1995. The non-recurring charges included costs associated with the potential acquisition of affiliated entities, a reserve for additional amounts due from Esmark, Inc. ("Esmark"), the Company's former parent, an accrual for certain executive compensation costs and costs associated with certain litigation, and the write-off of certain non-operating long-term assets. Non-recurring charges were $6.2 million for the fiscal year ended March 26, 1994. Fiscal nine months ended December 24, 1994 included $2.1 million (net of $0.5 million in related party interest income) related to the costs associated with the potential acquisition of affiliated entities, additional amounts due from affiliates, an accrual for certain executive compensation costs and certain costs associated with ongoing litigation. Such reserve was considered necessary principally due to the diminution in the market value of one of Esmark's principal assets, its 2,010,000 shares of Common Stock of the Company.

(2) Fiscal year ended December 28, 1996 included a $4.5 million increase in the deferred tax valuation allowance, which reduced the net deferred tax asset to zero.

(3) The recognized gain of $5.2 million represents the difference between (a) the recorded value of the Term Loan and (b) the fair value of the Subordinated Notes and the Series C Preferred Stock, less the write-off of deferred finance charges relating to the First Union Loan Agreement and the costs incurred in connection with the Capital Contribution and the Refinancing. This gain was applied against the Company's net operating loss carry forward, which is fully reserved. Any remaining net operating loss carry forward available after offset may be subject to limitation under the change of control provisions of the Internal Revenue Code. See "Risk Factors -- "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Notes 11 and 17 in the Notes to Consolidated Financial Statements.

(4) In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 128 "Earnings Per Share", which requires presentation of basic earnings per share (EPS) and diluted earnings per share and requires the restatement of EPS for all prior periods reported. The Company has adopted this statement as of December 27, 1997.

In connection with the closing of the Capital Contribution, (i) the Board of Directors declared a stock dividend on the Common Stock equal to one share of Common Stock for each 11.99 shares of Common Stock held of record as of the close of business on September 22, 1997 (these shares were retroactively applied in the accompanying financial statements for the earnings per share calculation) and (ii) the Board of Directors redeemed the rights issued pursuant to the Rights Agreement, dated as of June 5, 1996, between the Company and First Union, as rights agent, for $.01 per right in cash to holders of Common Stock held of record as of the close of business on September 22, 1997. Also in connection with the closing of the Capital Contributions, 1,630,000 Stock Options were granted to certain key personnel, 1,050,000 of which were exercisable immediately.

(5) Effective the Refinancing Closing Date, the Company entered into the Loan and Security Agreement with CBCC, which provides for loans to the Company maturing on October 8, 2002, thereby refinancing all amounts owing First Union. Proceeds of the Loan and Security Agreement were used to pay all of the Company's indebtedness to First Union and to establish working capital lines of credit. In connection with the closing of the Loan and Security Agreement, the Company paid CBCC a facility fee equal to $300,000. On the Refinancing Closing Date, two term loans were advanced to the Company in accordance with the terms of the Term Loan Facility in the aggregate principal amount of $10 million. See Note 11 in the Notes to Consolidated Financial Statements.

In connection with an amendment to the First Union Loan Agreement in November

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

1994, $6.1 million in term loan refinancing was obtained, directly reducing revolving credit obligations. Bank debt obligations totaled $45.7 million as of March 25, 1995, with revolving credit obligations totaling $31.3 million and term obligations totaling $14.4 million. Effective June 22, 1995, the Company amended the First Union Loan Agreement, pursuant to which an additional $8.0 million in term loan refinancing was obtained, reducing revolving credit obligations to a balance of $22.0 million and increasing term loan obligations to $22.0 million. In addition, the maturity date of all obligations to First Union was extended from August 1996 to March 2002. Total First Union debt obligations as of December 28, 1996 and December 30, 1995 amounted to $41.6 million and $36.1 million, respectively, including revolving credit balances of $20.0 million and $14.1 million, respectively, and term loan obligations of $21.6 million and $22.0 million, respectively. Total debt obligations as of December 28, 1996 included $5 million of convertible subordinated debentures. Total revolving credit availability in excess of utilization under the terms of the First Union Loan Agreement amounted to $3.5 million and $8.5 million as of December 28, 1996 and December 30, 1995, respectively, and $2.0 million at March 25, 1995. See Note 11 in the Notes to Consolidated Financial Statements.

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

Certain statements contained in the discussion below, including, without limitation, statements containing the words "believes," "anticipates," "expects," and words of similar import, constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: the effects of future events on the Company's financial performance; the risk that the Company may not be able to finance its planned growth; risks related to the retail industry in which the Company competes, including potential adverse impact of external factors such as inflation, consumer confidence, unemployment rates and consumer tastes and preferences; and the risk of potential increase in market interest rates from current rates. Given these uncertainties, current and prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

The following discussion and analysis should be read in conjunction with the Selected Consolidated Financial Data and the Company's Consolidated Financial Statements and the Notes thereto included elsewhere in this Prospectus.

Background

In 1986, the Company was acquired by Esmark, Inc. ("Esmark") from Beatrice Companies, Inc. (the corporate parent of Playtex International) in a leveraged buyout transaction. From 1986 to 1992, the Company generated positive earnings and cash flow, which were used to grow the legwear and activewear businesses. In August 1992, the Company completed the Initial Public Offering, resulting in net proceeds of approximately $34.6 million. The Company received approximately $14.0 million of the net proceeds from the initial public offering, which were used to reduce indebtedness.

During the fiscal year ended March 26, 1994, the Company began to experience decreased sheer hosiery sales as overall market demand declined due to a trend toward casual clothing. As a result of sheer hosiery sales declines, a $6.2 million non-recurring charge, principally for a write-off of an advance to Esmark, and continued legal costs associated with certain litigation, the Company incurred a $7.1 million net loss in the fiscal year ended March 26, 1994. During the fiscal year ended March 25, 1995, the Company suffered a $9.7 million net loss principally due to a $4.1 non-recurring charge associated with continued decreases in sheer hosiery sales, the loss of a large private label hosiery customer and continued legal costs associated with lawsuits. These losses constrained the Company's cash flow, resulting in increased bank borrowings. Reduced cash flow caused the Company's legwear operations in certain instances to operate with insufficient inventory and to ship incomplete orders. The cash flow shortfall also hampered the Company in pursuing certain strategic opportunities in the Danskin Division, including opening full price retail stores, expanding the Company's international operations and broadening the Company's product line to capitalize on Danskin's strong consumer brand recognition. The Company has undertaken a number of steps to improve its operating results. These steps have included: (i) the appointment of a new chief executive officer; (ii) the appointment of new members to the Board of Directors; (iii) a capital contribution; (iv) the Refinancing; (v) improved efficiencies at both of the Company's manufacturing facilities; and (vi) the development of new channels of distribution for the Company's activewear products.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Fiscal Year End

The Company's fiscal year ends on the last Saturday in December.

RESULTS OF OPERATIONS

(Comparison of the fiscal year ended December 26, 1998 with the fiscal year ended December 27, 1997)

NET REVENUES

Net revenues for the fiscal year ended 1998 amounted to $108.7 million, a decrease of $13.3 million, or 10.9%, from $122.0 million for the fiscal year ended 1997.

Danskin activewear net revenues, which includes the Company's retail operations, decreased $7.7 million, to $73.5 million, or 9.5%, in fiscal 1998 from $81.2 million in fiscal 1997. The Company's wholesale business decreased $8.0 million or 13.1% over fiscal 1997. The major decreases for net revenues were principally attributable to a decline in the Company's Private Label business, the discontinuance of the licensed SHAPE(R) activewear product line, and the elimination of the Dance France(R) business. Comparable retail store sales increased 4.6%. In its retail stores, the Company continued its efforts to improve store product offerings, renegotiate existing leases and streamline store operations. Marketing of activewear wholesale products continues to address the trends towards casual wear, and to emphasize fashion and dancewear product offerings.

Pennaco legwear net revenues declined $5.6 million, or 13.6%, to $35.2 million for fiscal 1998 from $40.8 million for fiscal 1997. The decline in legwear revenues reflects a confirmed weak sheer hosiery market in the department store class of trade, targeted SKU reductions designed to eliminate low margin and slow turning styles, and to a lesser extent, a decline in the Company's private label business and the termination of the Anne Klein(R) legwear license.

GROSS PROFIT

Gross profit increased $0.1 million, or 0.4%, to $40.3 million for the twelve months ended December 26, 1998 from the same prior year period. Gross profit as a percentage of net revenues increased to 37.1% for the twelve months ended December 26, 1998 from 33.0% for the same prior year period.

Gross margins for activewear were 39.0% for fiscal 1998 as compared to 35.6% for the same prior year period. This increase was primarily attributable to improved mix of sales of Danskin branded product versus lower margin private label merchandise, selective price increases, lower manufacturing costs and an improved mix of product in the Company's outlet stores.

Pennaco legwear gross profit improved to 33.0% for fiscal 1998 as compared to 27.7% for the same prior year period. This increase of 5.3% was mainly due to realization of selected price increases, reduction of costs in the manufacturing facility and the elimination of certain lower margin programs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

For fiscal 1998, selling, general and administrative expenses, which include retail store operating costs, increased $1.9 million, or 4.8%, to $42.1 million, or 38.7% of net revenues, compared to $40.2 million, or 33.0% of net revenues for fiscal 1997. Selling, general and administrative expenses, excluding retail store operating costs, increased $2.8 million, or 10.1%, to $31.1 million, or 35.1% of net revenues, for fiscal 1998, from $28.3 million, or 27.6% of net revenues, for the same prior year period. The increase for fiscal 1998 was principally a result of increased advertising for the Danskin brand and the new Packables business, higher compensation expense, including one-time charges of $1.0 million relating to changes in senior management, and professional services, offset, in part, by reduced selling and marketing expenses.

INTEREST EXPENSE

Interest expense amounted to $2.5 million for fiscal 1998 and $4.3 million for fiscal 1997, due primarily to a lower effective interest rate and lower levels of debt. The Company's effective interest rate was 9.8% and 11.1% for 1998 and fiscal 1997, respectively. The effective interest rate decrease over the prior year is primarily due to lower amortization of deferred financing costs and lower interest rates associated with the refinancing with Century Business Credit Corporation.

NON-RECURRING CHARGES

Non-recurring charges were $2.4 million for the fiscal year ended December 26, 1998. These charges consisted of severance costs related to the resignation and termination of former executives of the Company, a provision established for the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

remaining net lease obligation for the former corporate office at 111 W. 40th Street in New York City and write-offs of non-operating assets, offset by the recognition of the outstanding amount owed the Company for the sale of the Sea & Ski trademark, and the gain on the sale of the Reading, PA outlet store.

INCOME TAX PROVISION (BENEFIT)

The Company's income tax provision (benefit) rates differed from the Federal statutory rates due to the utilization of net operating losses and the effect of state taxes for both fiscal 1998 and fiscal 1997. Fiscal 1997 was also effected by the Alternative Minimum Tax. The Company's net deferred tax balance was $0 at both December 26, 1998 and December 27, 1997.

NET (LOSS)

As a result of the foregoing, and as a result of the extraordinary gain in fiscal 1997 discussed below, the net loss was $6.9 million for fiscal 1998, a decline of $7.3 million from the $0.4 million net income for fiscal 1997.

(Comparison of the fiscal year ended December 27, 1997 with the fiscal year ended December 28, 1996)

NET REVENUES

Net revenues for the fiscal year ended 1997 amounted to $122.0 million, a decrease of $6.1 million, or 4.8%, from $128.1 million for the fiscal year ended 1996. Wholesale revenues for the Company declined $5.3 million and retail volume decreased $0.8 million for fiscal 1997.

Danskin activewear net revenues, which includes the Company's retail operations, increased $0.6 million, to $81.2 million, or 0.7%, in fiscal 1997 from $80.6 million in fiscal 1996. The Company's wholesale business increased $1.4 million or 2.3% over fiscal 1996, while comparable retail store sales declined 7.7% during fiscal 1997. The Company continues its efforts to improve store product offerings, renegotiate existing leases and streamline store operations. Marketing of activewear wholesale products continues to address the trends towards casual wear, and to emphasize fashion and dancewear product offerings.

Pennaco legwear net revenues declined $6.7 million, or 14.1%, to $40.8 million for fiscal 1997 from $47.5 million for fiscal 1996. This decline is indicative of a continued weak sheer hosiery market in the department store class of trade.

GROSS PROFIT

Gross profit declined $4.3 million, or 9.7%, to $40.2 million for the twelve months ended December 27, 1997 from the same prior year period. Gross profit as a percentage of net revenues decreased to 33.0% for the twelve months ended December 27, 1997 from 34.7% for the same prior year period.

Gross margins for activewear were 35.6% for fiscal 1997 as compared to 39.1% for the same prior year period. This decrease was primarily attributable to closeout sales, customer markdown allowance from prior seasons, incremental private label programs and additional inventory markdowns taken to improve turns in the outlet stores.

Legwear gross profit improved to 27.7% for fiscal 1997 as compared to 27.3% for the same prior year period. This increase of 0.4% was mainly due to realization of selected price increases and reduction of costs in the manufacturing facility.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

For fiscal 1997, selling, general and administrative expenses, which include retail store operating costs, decreased $1.8 million, or 4.3%, to $40.2 million, or 33.0% of net revenues, compared to $42.0 million, or 32.8% of net revenues for fiscal 1996. Selling, general and administrative expenses, excluding retail store operating costs, decreased $2.4 million, or 7.8%, to $28.3 million, or 23.2% of net revenues, for fiscal 1997, from $30.7 million, or 28.6% of net revenues, for the same prior year period. The decrease for fiscal 1997 was principally a result of a reduction in print advertising costs, lower compensation expenses and a reduction in distribution costs.

INTEREST EXPENSE

Interest expense amounted to $4.3 million for fiscal 1997 and $4.7 million for fiscal 1996. The Company's effective interest rate was 11.1% and 10.5% for 1997 and fiscal 1996, respectively. The increase of the effective interest rate over the same prior year period was principally due to the conversion of the Company's 8% subordinated convertible debentures to 10% Cumulative Preferred Stock.

NON-RECURRING CHARGES

Non-recurring charges were $0.3 million for fiscal 1997. These charges consisted

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

of certain executive employee severance costs.

EXTRAORDINARY GAIN FROM EARLY RETIREMENT OF DEBT

The Company recognized a gain of $10.0 million, offset by the write-off of deferred financing fees associated with the First Union Loan Agreement of $2.6 million and direct costs of the transaction of $2.2 million, for fiscal 1997. The extraordinary gain is attributable to the difference between (a) the recorded value of the Term Loan and (b) the fair value of the Subordinated Notes and Series C Preferred Stock, less the write-off of deferred finance charges relating to the First Union Loan Agreement and the costs incurred in connection with such transactions. This gain was applied against the Company's net operating loss carry forward, which is fully reserved. (See Note 11 to the Notes to Consolidated Financial Statements).

At March 29, 1997 (the end of the Company's last full taxable year), based on its tax returns as filed, the Company had approximately $12.3 million of net operating loss carry forwards for federal income tax purposes. The Company believes that, after taking into account (i) the use of net operating losses to shelter income arising in respect of certain of the transactions described in "The Capital Contribution and the Refinancing" and (ii) the operating loss of the Company for the 1997 taxable year, the Company will retain approximately $7.0 million to $9.9 million in net operating loss carry forwards. However, as discussed immediately below, the use of these carry forwards by the Company will be limited by the "ownership change" rules of Section 382.

Under Section 382, if a corporation with losses undergoes an "ownership change," then the amount of pre-ownership-change net operating loss carry forwards that such corporation may use to offset income in any post-ownership-change taxable year is limited to an amount (the "annual Section 382 limitation") that is determined, in general, by multiplying the fair market value of such corporation's outstanding capital stock immediately prior to the ownership change by the "long-term tax-exempt rate" which is published monthly by the Internal Revenue Service. The Company had an ownership change in 1997 as a result of the Capital Contribution. (See Note 11 to the Notes to Consolidated Financial Statements). The Company believes that its annual Section 382 limitation resulting from that ownership change limits its ability to use its pre-ownership-change net operating loss carry forwards to shelter future income.

INCOME TAX PROVISION (BENEFIT)

The Company's income tax provision (benefit) rates differed from the Federal statutory rates due to the utilization of net operating losses, the effect of the Alternative Minimum Tax and the effect of state taxes for fiscal 1997 and fiscal 1996, respectively. The Company's net deferred tax balance was $0 at both December 27, 1997 and December 28, 1996.

NET INCOME (LOSS)

As a result of the foregoing, the net income was $0.4 million for fiscal 1997, an improvement of $5.4 million from the $5.0 million loss for fiscal 1996.

SEASONALITY

In the fiscal years ended December 1998 and 1997, the Spring and Fall season, shipped in the first and third quarter, respectively, continued to represent the best volume period for activewear and legwear.

The following table summarizes the net revenues, operating (loss) income before non-recurring charges, interest and taxes and net (loss) income of the Company before preferred stock dividends, for each of the fiscal March, June, September and December quarters in the last two fiscal years:

	For the fiscal quarters ended (millions)			
	March	June	September	December
1998				
Net revenues	$ 28.3	$ 26.4	$ 28.0	$ 26.0
Operating (loss) income before non-recurring charges, interest and taxes	(0.1)	0.3	(0.7)	(1.3)
Net (loss)	(1.8)	(0.3)	(1.9)	(2.9)
1997				
Net revenues	30.8	29.5	32.7	29.0
Operating income (loss) before non-recurring charges, interest and taxes	0.4	(0.3)	1.4	(1.5)
Net (loss) income	(0.8)	(1.6)	4.9	(2.1)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

INFLATION

The Company does not believe that the relatively moderate levels of inflation which have been experienced in the United States, Canada and Western Europe in recent years have had a significant effect on its net revenues or its profitability.

YEAR 2000 Readiness Disclosure

The Company commenced a comprehensive program to replace its core management information systems in fiscal 1997. The program involves comprehensive changes to the Company's present hardware and software. In addition to providing certain competitive benefits, completion of the project will result in the Company's information systems being year 2000 compliant. The planning stage of this project has been completed, as well as the systems development phase. Simulated implementation of certain of the key systems is currently in progress. At this time, management does not expect that the replacement of such systems will be fully implemented prior to year 2000. Therefore, the Company has assessed and remediated such systems for year 2000 compliance and is conducting comprehensive testing to ascertain whether such remediation was successful. It expects to complete such testing by June 30, 1999. There can be no assurance, however, that the Company's systems will be rendered year 2000 compliant in a timely manner, either through replacement or remediation, or that the Company will not incur significant unforeseen additional expenses to assure such compliance. Failure to successfully complete and implement the replacement project on a timely basis, or to successfully remediate legacy systems, could have a material adverse impact on the Company's operations.

The Company is also evaluating and remediating its non-information systems for year 2000 compliance. It is seeking to obtain year 2000 compliance certification letters from key non-information systems vendors and anticipates commencing test simulations in the near term. The Company presently anticipates that such testing will be completed by June 30, 1999. Although there can be no assurance, the Company does not presently anticipate that year 2000 issues will pose significant operational problems.

The Company does not presently anticipate that the cost to modify its information and non-information systems technology will be material to both its financial condition and its results of operations during fiscal 1999. The Company `s information technologies staff is currently evaluating and remediating the year 2000 issues within existing systems. Therefore, the cost to evaluate and remediate such systems is principally the related payroll costs for its information systems group. The Company does not have a project tracking system that tracks the cost and time that its own internal employees spend on year 2000 projects.

The Company presently has incomplete information concerning the year 2000 compliance status of its suppliers and customers. It is in the process of identifying and contacting its key customers and suppliers to determine if any such supplier or customer has any year 2000 issues which the Company believes would have a material adverse effect on the Company. There can be no assurance, however, that the systems of other companies on which the Company relies will be timely converted, or that a failure to successfully convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material impact on the Company's operations.

The Company is in the process of developing a contingency plan, which it presently anticipates will include, among other steps, indentifying alternative suppliers in the event any of its key suppliers can not offer year 2000 compliance assurance in a timely fashion, and securing alternative manufacturing sources in the event the Company can not remediate any year 2000 issues it discovers in the course of its systems assessment which can reasonably be expected to materially impact its manufacturing ability. The Company anticipates that its contingency planning will be completed by June 30, 1999. The Company's contingency plan will evolve as additional information becomes available.

The Company does not believe that it can identify its most reasonable likely worst case year 2000 scenario at this time. However, a reasonable worst case scenario would be a failure of a key customer or supplier to successfully address its year 2000 issues for a prolonged period. Without an effective contingency plan, any failure by the Company to timely remediate any year 2000 issues relating to any of its material operating or manufacturing systems would likely have a material adverse effect on the Company's results of operations, although the extent of such effect cannot be reasonably estimated at this time.

This document contains Year 2000 Readiness Disclosures as defined in Year 2000 Information and Readiness Disclosure Act, P.L. 105-271 (Oct 19, 1998). Accordingly, this disclosure, in whole or in part, is not, to the extent provided in the act, admissible in any state or federal civil action to prove the accuracy or truth of any Year 2000 statements contained herein.

LIQUIDITY AND CAPITAL RESOURCES

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The Company's primary liquidity and capital requirements relate to the funding of working capital needs, primarily inventory and accounts receivable, capital investments in operating facilities, machinery and equipment, and principal and interest payments on indebtedness. The Company's primary sources of liquidity have been bank financing, convertible securities, vendor credit terms and internally generated funds.

Net cash flow used in operations increased by $0.4 million to $1.5 million for the fiscal year ended December 26, 1998, from a use of cash from operations of $1.1 million for the fiscal year ended December 27, 1997, principally attributable to increases in inventories and prepaid expenses offset by a decrease in accounts receivable and increases in accounts payable and accrued expenses. After $4.7 million invested in capital expenditures, payments of term debt and revolver loan receipts, the Company's cash position decreased by $0.3 million to $0.5 million for the fiscal year ended December 26, 1998.

Working capital was $6.5 million at December 26, 1998 compared to $19.0 million at December 27, 1997. The change in working capital is primarily attributable to a $7.5 million increase in the revolving line of credit due to the investment of $4.7 million for capital expenditures and the launch of the Danskin Packables line. In addition, the current portion of long term debt increased $1.7 million and accrued expenses increased $3.3 million primarily relating to severance pay and relocation of the corporate offices and showroom.

In accordance with the terms of a certain Securities Purchase Agreement, dated September 22, 1997 (the "Securities Purchase Agreement"), entered into by the Company and Danskin Investors, LLC (the "Investor'), the Investor, and certain other persons contributed to the Company in the aggregate, (a) approximately $21.256 million face amount (the "Loan Amount") of notes executed by the Company and payable to First Union National Bank ("First Union"), and (b) $4 million in cash (together, the "Capital Contribution") in exchange for (i) $15 million face amount of debt (the "Subordinated Debt"), subordinated only to the Company's obligations to First Union under a certain revolving credit facility, and (ii) convertible preferred stock of the Company having a liquidation preference of $500,000 (the "Investor Preferred Stock," together with the Subordinated Debt, the "Securities"). The Investor funded the Capital Contribution through capital contributions made to it by its members and $544,129 paid by Oppenheimer Bond Fund for Growth ("BFG") to the Company in exchange for a portion of the Securities.

Effective October 8, 1997, (the "Refinancing Closing Date"), the Company replaced its former finance arrangements with First Union with a new loan and security agreement (the "Loan and Security Agreement") with Century Business Credit Corporation ("CBCC" or the "Lender") which matures on October 8, 2002. Proceeds of the Loan and Security Agreement were used to repay all of the Company's indebtedness to First Union, and to establish working capital lines of credit.

Pursuant to and in accordance with its terms, the Loan and Security Agreement provides the Company with a term loan Facility in the aggregate principal amount of $10 million (the "Term Loan Facility") and a revolving credit facility, (the "CBCC Revolving Credit Facility"), including a provision for the issuance of letters of credit, generally in an amount not to exceed the lesser of (a) $45 million less the aggregate outstanding principal balance under the Term Loan Facility, or (b) a formula amount based upon the Company's available inventory and accounts receivable levels, minus certain discretionary reserves. The Company's obligations to CBCC under the Loan and Security Agreement are generally secured by a first priority security interest in all present and future assets of the Company. The Loan and Security Agreement contains certain customary affirmative and negative covenants, including maintenance of tangible net worth and a limitation on capital expenditures, respectively. In connection with the closing under the Loan and Security Agreement, the Company paid CBCC a facility fee equal to $300,000.

On the Refinancing Closing Date, two term loans were advanced to the Company in accordance with the terms of the Term Loan Facility. A term loan in the original principal amount of $5 million was advanced to the Company and is, with respect to principal, payable in thirty (30) consecutive monthly installments which commenced on November 1, 1998. A second term loan in the original principal amount of $5 million was advanced to the Company and is, with respect to principal, payable in eighteen (18) consecutive monthly installments commencing on May 1, 2001. Availability at December 26, 1998 was approximately $9.0 million.

Interest on the Company's obligations under the Loan and Security Agreement generally accrues at a rate per annum equal to the sum of the Prime Rate, as defined in the Loan and Security Agreement, plus one half of one (1/2%) percent and is payable monthly. Interest may also accrue at a rate per annum equal to the sum of the Eurodollar Rate, as defined in the Loan and Security Agreement, plus two and three quarters percent (2-3/4%).

In accordance with the terms of the Securities Purchase Agreement, upon the Refinancing Closing Date, the Securities were, by their terms, automatically exchanged for (a) $12 million stated value of Series D Redeemable Cumulative

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Convertible Preferred Stock (the "Series D Stock") of the Company, (b) a seven year warrant to purchase 10 million shares of Common Stock at a per share price of $0.30 (the "Warrant"), and (c) a $3 million aggregate principal amount subordinated note of the Company, bearing an interest rate of 8% per annum (the "Remaining Subordinated Debt").

The Series D Stock has an 8% annual dividend rate, payment of which is deferred through December 31, 1999, and a seven year maturity. The Investor has agreed that, for the period beginning on the date of issuance of the Series D Stock and ending on December 31, 1999, all dividends accrued on the Series D Stock may be paid, at the option of the Company, in cash or in additional Common Stock, legally available for such purpose. The issuance of such Common Stock to the Investor shall, in accordance with the agreement, constitute full payment of such dividend. The 2,400 shares of Series D Stock are convertible into Common Stock, at the option of the holder, and, in certain circumstances, mandatorily, at an initial conversion rate of 16,666.66 shares of Common Stock for each share of Series D Stock so converted, subject to adjustment in certain circumstances. If, for any fiscal year beginning with the fiscal year ending December 1999, the Company meets certain agreed upon financial targets, all accrued dividends for such fiscal year will be forgiven and the Series D Stock will automatically convert into 40 million shares of Common Stock. The terms of the Series D Stock also provide that, upon the seventh anniversary of the date of its issuance, if the Series D Stock has not previously been converted to Common Stock in accordance with its terms, the Series D Stock shall be redeemed by the Company for an amount equal to the sum of (x) $5,000 per share (as adjusted), plus (y) all accrued and unpaid dividends on such shares of Series D Stock to the date of such redemption. Holders of the Series D Stock are entitled to vote, together with the holders of the Common Stock and any other class or series of stock then entitled to vote, as one class, on all matters submitted to a vote of stockholders of the Company, in the same manner and with the same effect as the holders of the Common Stock. In any such vote, each share of issued and outstanding Series D Stock shall entitle the holder thereof to one vote per share for each share of Common Stock that would be obtained upon conversion of all of the outstanding shares of Series D Stock held by such holder, rounded up to the next one-tenth of a share. Therefore, the exchange of the Series D Stock for the Subordinated Debt was highly dilutive of existing holders of Common Stock. Holders of the Series D Stock are also entitled to designate a majority of the directors to the Board of Directors of the Company.

In furtherance of the terms of the Securities Purchase Agreement, on April 28, 1998, the Company filed a Registration Statement on Form S-1 in connection with the registration under the Securities Act of 1933, as amended, of (i) an aggregate of 10,838,124 rights to purchase shares of Common Stock, and (ii) 2,131,889 shares of Common Stock issuable upon exercise of such rights. The Board of Directors established May 8, 1998 as the date of record for holders of Common Stock to participate in such offering. Holders of Common Stock held of record as of the close of business on the record date had the right to purchase, pro rata, 2,131,889 shares of Common Stock at a per share price of $0.30 (the "Rights Offering"). The Rights Offering commenced on July 6, 1998 and expired on August 6, 1998. Approximately 8.4 million rights were subscribed for and approximately 1.6 million shares were issued in respect of such rights. In accordance with the terms of the Securities Purchase Agreement, the Investor purchased the rights not subscribed for on primary subscription, totaling 488,289 shares of Common Stock, at $0.30 per share. The Company realized aggregate gross proceeds of approximately $640,000.

In addition, on May 27, 1998, the Company, the Investor, and BFG purchased, pro rata in proportion to their respective holdings of Remaining Subordinated Notes, 7,864,336 shares of Common Stock, in exchange for approximately $2.4 million aggregate principal

amount of Remaining Subordinated Notes (the "Stock Sale"). As a result of the Rights Offering and the Stock Sale, the Company issued 10,000,000 shares of Common Stock at $0.30 per share as contemplated by the Securities Purchase Agreement. In addition, the outstanding principal amount of Remaining Subordinated Notes was satisfied in full.

The Company's anticipated capital expenditures for 1999 approximate $2.6 million. These expenditures consist primarily of the cost to replace the Company's core technology information systems, the purchase of state of the art knitting machines, the opening of two additional retail stores and selective equipment at the manufacturing plants to improve efficiencies. With the exception of the knitting machines, which will be financed through a term loan with Century Business Credit Corporation, the capital expenditures are anticipated to be financed through available capital. In addition to the capital expenditures for 1999, the Company will have debt service payments of $2.0 million to be paid in equal monthly installments.

The Company has incurred losses for each of the periods presented. The Company expects that short-term funding requirements will continue to be provided principally by the Company's banking and vendor arrangements.

Management believes that with its current financing in place (which was completed in October 1997 with CBCC) the Company will have sufficient working

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

capital to sustain its operations. The Company may need additional financing, however, for the acquisition or development of any new business or programs.

Strategic Outlook

The Company's business strategy is to capitalize on and enhance the consumer recognition of the Danskin brand and products by continuing to develop new and innovative activewear and legwear products that reflect a woman's active lifestyle, and to offer those products to the consumer in traditional and non-traditional channels of distribution.

The Company continues to pursue its `Primary Resource Strategy,' moving Brand Danskin beyond its traditional stretch bodywear platform. The Company intends to continue to offer new and innovative products that blend technical innovation with comfort and style, broadening the position of Brand Danskin to the consumer beyond `activewear' to one of `active lifestyle.' The Company continues to expand the visibility of Brand Danskin beyond its traditional channels of distribution to alternative channels such as the internet (select retailer sites), direct mail (through retail partners), and home shopping television channels.

The Company's Pennaco hosiery division has developed a diversified portfolio of products under proprietary, licensed and private label brands. These products include sheer and supersheer products, value oriented multipacks, plus size offerings, socks, trouser socks and tights. The Company's business strategy with respect to the Pennaco division is to exploit its significant manufacturing expertise, and the diversity of its product offerings, to achieve strategic alliances with its key retail partners to enable it to maintain its industry position in a contracting sheer hosiery market.

The Company recognizes that an integral aspect of its business strategy is to achieve greater distribution of its products. Recognizing that the Company's own retail stores allow the Company to showcase its products, provide an additional channel of distribution, and act as a laboratory for product innovation and introduction, the Company continues to explore opportunities for selective national expansion of its full price retail strategy. The Company is also in the process of exploring its alternatives for the marketing and distribution of its activewear and legwear products over the internet. The Company believes that the internet will provide it with an alternative and expanded distribution channel that would allow it to offer the full complement of its product lines to a significantly broader audience than is presently available to it in any existing channel of distribution.

In addition to the foregoing, the Company is seeking to increase its presence at retail by exploring various licensing opportunities of Brand Danskin as well as seeking to increase its presence in various international markets.

There can be no assurances that the Company will be able to implement these strategies, or that if implemented, that such strategies will be successful. In addition, there can be no assurance that the Company would not be adversely affected by adverse changes in general economic conditions, the financial condition of the apparel industry or retail industry, or adverse changes in retailer or consumer acceptance of the Company's products as a result of fashion trends or otherwise. Moreover, the retail environment remains intensely competitive and highly promotional and there can be no assurance that the Company would not be adversely affected by pricing changes of the Company's competitors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not trade in derivative financial instruments. The Company's revolving line of credit bears interest at a variable rate (prime plus 1/2%) and, therefore, the Company is subject to market-risk in the form of interest rate fluctuation.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and supplementary data required pursuant to this Item 8 begin on page F-1 of this Form 10-K.

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

Executive Officers and Directors

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The following table sets forth certain information regarding the Company's directors and executive officers:

Name	Age	Position	Year Term as Director Expires
Donald Schupak (1)(3)(4)	55	Chairman of the Board	1998
Nina McLemore(1)(4)	53	Vice Chairperson of the Board	1999
M. Catherine Volker (1)	44	President, Chief Executive Officer and Director	1999
Debbie Hobbs	42	SVP Marketing	
Denise Landman	45	President, Pennaco Division	
Margaret B. Pritchard	36	Secretary, General Counsel and Senior Vice President, Business Development	
Andrew J. Astrachan(1)(4)	39	Director	1997
Gabriel Brener(3)	39	Director	1997
David Chu	44	Director	1999
Michael Hsieh(2)(3)	41	Director	1998
James P. Jalil(2)	50	Director	1997
Henry T. Mortimer, Jr.(2)	56	Director	1997
Larry B. Shelton(2)	64	Director	1998

(1) Member of Executive Committee.
(2) Member of Audit Committee.
(3) Member of Compensation Committee.
(4) Member of the Nominating Committee.

The business experience, principal occupations and employment, as well as the periods of service, of each of the directors and executive officers of the Company during at least the last five years, are set forth below.

Directors

Class II (Terms to Expire in 1997)

Directors in Class II will continue to serve as directors until they are proposed for reelection at the next annual meeting of stockholders.

Andrew J. Astrachan, age 39, has been a director of the Company since September 1997. He is the President and founder of Onyx Partners, Inc., an investment bank. From 1985 to 1990, Mr. Astrachan was employed at Drexel, Burnham & Lambert. Prior to that, he was a Vice President at Salomon Brothers Inc. from 1981 to 1985.

Gabriel Brener, age 39, has been a director of the Company since September 1997. He is President and CEO of Brener International Group, LLC., an investment and management firm headquartered in Los Angeles, California. Mr. Brener serves as an advisory board member of each of New Colt Holding Company and First National Bank. He has previously served as Chairman of the Board for Valassis de Mexico, S.A. de C.V. and has held board positions for several other companies.

James P. Jalil, age 50, has been a director of the Company since September 1997. He has been a senior corporate partner with the law firm of Shustak Jalil & Heller since 1992. Prior to that, Mr. Jalil was a corporate partner at Lane & Mittendorf from 1982 to 1992.

Henry T. Mortimer, Jr., age 56, has been a director of the Company since August 1992. He is a Managing Director of Financial Security Assurance Inc., a financial guarantee insurance company. Previously, he was a Senior Vice President of E.F. Hutton & Co., Inc. in its investment banking department. In addition, he is currently a Director of Tipiak, S.A., a French food manufacturing company, and a Director of Financial Security Assurance (UK) Limited.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Class III (Terms to Expire in 1998)

Donald Schupak, age 55, has been a director of the Company since October 16, 1996 and became the Chairman of the Board of Directors on March 27, 1997. He is also the Chairman of the Board of Directors of 7th Level, Inc., (d/b/a 7th Street.com), a public internet company that develops and markets web-based training and impact communications solutions. He is also the Chief Executive Officer of the Schupak Group, an organization that provides strategic planning, management consulting and corporate finance services to a variety of clients. Mr. Schupak founded the Schupak Group in 1980. From September 1988 through September 1990, he served as Chairman, Chief Executive Officer and President of Horn & Hardart Company. From 1971 through 1980, Mr. Schupak was actively engaged in the practice of law with Schupak, Rosenfeld & Fischbein, a New York City law firm founded by Mr. Schupak.

Larry B. Shelton, age 64, has been a director of the Company since October 1994. He is the President of Shelton & Associates, a management consulting firm specializing in the apparel industry. In 1991, he retired as President and Chief Operating Officer of Genesco, Inc., an apparel manufacturing company, having served in that organization for over 35 years in various management capacities. He has long been active in the apparel industry, having served as Chairman of the Board of The American Apparel Manufacturing Association and as a board member of The Clothing Manufacturers Association.

Michael Hsieh, age 41, has been the President of LF International, Inc., a venture capital company, since 1986 and a director of Li & Fung (BVI) Ltd. since 1992. He was previously with R.H. Chapell Co., a San Francisco venture capital firm, and with Merrill Lynch Capital Markets Group.

Class I (Terms to Expire in 1999)

M. Catherine Volker, age 44, became the Chief Executive Officer of the Company on March 2, 1998. Prior to joining the Company, Ms. Volker served as President of Hanes Hosiery since 1993 and served as Vice President of Hanes' parent, the Sara Lee Corporation since 1996. Ms. Volker joined Hanes Hosiery as Vice President of Merchandising in 1986 and was appointed Vice President and General Manager of Hanes Hosiery in 1992.

David Chu, age 44, is the President, Chief Executive Officer and chief designer of Nautica International, Inc., an apparel licensed product company he founded in 1983. He is a member of the Counsel of Fashion Designers of America (CFDA) and a director of the Educational Foundation for the Fashion Industries (an advisory body to the Fashion Institute of Technology). In addition, Mr. Chu is a trustee of The Asia Society and The China Institute.

Nina McLemore, age 53, has been a director of the Company since September 1997 and became the Vice Chairperson of the Board on December 10, 1997. She is a Senior Managing Partner of Regent Capital Partners, L.P., a private investment firm. She previously served as a member of the Executive Committee of Liz Claiborne, Inc. from 1989 to 1993 and was responsible for acquisitions, start-ups and new business opportunities in 1993. Prior to that, Ms. McLemore was President of Liz Claiborne Accessories from 1980 to 1992. She serves as a Director for Santa Monica Amusements, Inc., Talton Holdings, Inc. and Evercom, Inc.

Officers

Debbie Hobbs has been the Senior Vice President, Marketing since April 1998. Prior to joining Danskin, Ms. Hobbs was Vice President, General Manager Designer Brands at Hanes Hosiery, a division of Sara Lee Corporation.

Denise Landman has been the President of the Pennaco division since October 1998. Ms. Landman previously served as the Company's Senior Vice President, Sales after joining the Company in June 1998. Prior to joining Danskin, Ms. Landman was Vice President, General Manager Specialty Brands at Kayser Roth Corp.

Margaret B. Pritchard has been the Senior Vice President, Business Development of the Company since June 1, 1997. Ms. Pritchard has been the General Counsel of the Company since October 1, 1997, having previously served as the Company's Assistant General Counsel since June 1, 1997. She was appointed Secretary of the Company by the Board of Directors on December 10, 1997. Prior to joining the Company, Ms. Pritchard was an associate with the law firm of Fried, Frank, Harris, Shriver & Jacobson in New York.

Section 16(a) Beneficial Ownership Reporting Compliance

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Under Section 16(a) of the Securities and Exchange Act of 1934, the Company's directors, executive officers and holders of more than 10% of the Common Stock are required to report their initial ownership of the Company's equity securities and any subsequent changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established, and the Company is required to disclose any failure to file by these dates with respect to Fiscal 1998. Based on written representations of its directors and executive officers and copies of reports they have filed with the Securities and Exchange Commission, the only late reports filed for Fiscal 1998 were Form 4's for each of Debbie Hobbs, Denise Landman and Margaret B. Pritchard relating to stock option grants under the Company's 1992 Stock Option Plan and M. Catherine Volker with respect to a stock option grant under a certain Stock Option Agreement between Ms. Volker and the Company dated February 2, 1998.

Board of Directors and Board Committees

The Board of Directors met 5 times in 1998.

The Board of Directors has an Executive Committee, an Audit Committee, a Compensation Committee and a Nominating Committee.

The Executive Committee is generally empowered to act on behalf of the Board of Directors when the Board is not convened in meeting. The members of the Executive Committee consist of Donald Schupak, Cathy Volker, Nina McLemore and Andrew J. Astrachan. The Executive Committee held 6 meetings during 1998.

The Audit Committee is generally responsible for recommending the appointment of the Company's independent auditors and overseeing the accounting and internal audit functions of the Company, including reviewing, with the Company's independent auditors, (i) the general scope of their audit services and the annual results of their audit, (ii) the reports and recommendations made to the Audit Committee by the independent auditors, and (iii) the Company's internal control structure. The members of the Audit Committee consist of Larry B. Shelton, Henry T. Mortimer, Michael Hsieh and James P. Jalil. The Audit Committee held 2 meetings during 1998.

The Compensation Committee is generally responsible for reviewing and making recommendations to the Board of Directors concerning remuneration of the Company's key employees, including executive officers. The Compensation Committee also grants stock options pursuant to the Stock Option Plan. The members of the Compensation Committee consist of Gabriel Brener, Donald Schupak and Michael Hsieh. The Compensation Committee did not meet during 1998.

The Nominating Committee is generally responsible for recommending appropriate individuals to serve as members of the Board of Directors. The members of the Nomination Committee consist of Donald Schupak, Andrew J. Astrachan and Nina McLemore. The Nominating Committee did not meet during 1998.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the compensation earned during the last three fiscal years by the Company's Chief Executive Officer and each other executive officer of the Company (each, a "named executive officer"). The Company had five executive officers during the fiscal year ended December 26, 1998 ("fiscal 1998"). Ms. Domuracki was replaced as Chief Executive Officer of the Company on March 2, 1998 and Ms. Eichel resigned as Chief Financial Officer effective September 25, 1998.

<TABLE>
<CAPTION>

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Other Annual Compensation	Stock Options (#)	All Other Compensation ($)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
M.Catherine Volker (1) Chief Executive Officer	1998	310,896	337,500 (2)	-	2,550,000	448,000 (3)
Beverly Eichel (4)	1998	250,000		-	-	60,156 (5)
Chief Financial	1997	250,000	37,500	-	680,000	4,026 (7)
Officer	1996	228,942 (6)	40,000	-	-	4,767
Debbie Hobbs SVP Marketing	1998	133,653	30,000	-	225,000	2,550 (8)
Denise Landman	1998	127,723	50,000	-	225,000	676 (9)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

President, Pennaco Division						
Margaret B. Pritchard	1998	184,615	75,000	-	125,000	1,173 (10)
SVP, Secretary and	1997	127,692	-	-	100,000	
General Counsel						
Mary Ann Domuracki (11)	1998	80,769	-	-	-	336,439 (12)
Chief Executive Officer	1997	350,000	37,500	-	1,020,000	4,436 (13)
and President	1996	353,865	60,000	-	0	5,072

</TABLE>

(1) Ms. Volker became Chief Executive Officer of the Company effective March 2, 1998.

(2) Amounts shown as 'Bonus' include a sign-on bonus in the amount of $150,000 which was paid to Ms. Volker in connection with the execution of her employment agreement, and $187,500 which was paid to Ms. Volker in respect of fiscal 1998 in accordance with the terms of such agreement.

(3) Amounts shown as 'Other Compensation' for Ms. Volker include (i) $445,500 attributable to a stock grant, and (ii) a $2,500 contribution by the Company in 1998 as the 25% matching contribution for the first 4% of earnings contributed by Ms. Volker to the Company's Savings Plan, a tax qualified plan covering full-time salaried employees over the age of 21 (the "Savings Plan"). The Savings Plan allows participants

to elect to make contributions, on a pre-tax basis, from 1% to 15% of their compensation, subject to applicable Internal Revenue Code limitations, and the Company is required to make a matching contribution equal to 25% of the participants contributions up to 4% of such compensation. A participant becomes 33 1/3% vested in the matching contributions after three years of service, 66 2/3% after four years of service and 100% after five years of service.

(4) Ms. Eichel resigned her position as Chief Financial Officer of the Company effective September 25, 1998.

(5) Amounts shown as 'Other Compensation' for Ms. Eichel include (i) vacation and deferred compensation totaling $54,647, (ii) premium paid by the Company in respect of a life insurance policy for the benefit of Ms. Eichel in the amount of $1,145, (iii) premium paid by the Company with respect to a long term disability policy for the benefit of Ms. Eichel in the amount of $1,864, and (iv) a $2,500 matching contribution to the Savings Plan.

(6) Salary for Ms. Eichel for fiscal 1996 reflects a voluntary reduction from $250,000 to $225,000 that was in effect from January 1, 1995 to November 1, 1996, at which time the full contracted salary rate of $250,000 was reinstated.

(7) Amounts shown as 'Other Compensation' for fiscal 1997 for Ms. Eichel represents premiums paid by the Company in respect of a life insurance policy for the benefit of Ms. Eichel in the amount of $1,060, a $2,375 contributed by the Company as the matching contribution to the Savings Plan and a discretionary profit sharing contribution of $591 made by the Company in shares of common stock (314 shares).

(8) Amounts shown as 'Other Compensation' for Ms. Hobbs include (i) $670 attributable to COBRA payments made by the Company for the benefit of Ms. Hobbs, and (ii) $1,880 matching contribution to the Savings Plan.

(9) Amounts shown as 'Other Compensation' for Ms. Landman include $676 attributable to COBRA payments made by the Company for the benefit of Ms. Landman.

(10) Amounts shown as 'Other Compensation' for Ms. Pritchard include $1,173 matching contribution to the Savings Plan.

(11) Ms. Domuracki was replaced as Chief Executive Officer of the Company on March 2, 1998. On November 29, 1996, Ms. Domuracki received a lump sum payment in the amount of $71,250 representing payment of the contractual amount of salary due her for the period April 1, 1995 through October 31, 1996, less a voluntary 10% salary reduction which was in effect during that period.

(12) Amounts shown as 'Other Compensation' for Ms. Domuracki for 1998 include $269,231 for severance payments, vacation and deferred compensation totaling $89,840, premiums paid by the Company in respect of life and long term disability insurance policies for the benefit of Ms. Domuracki in the amount of $1,650 and $5,718 respectively and a $2,500 matching contribution to the Savings Plan.

(13) Amounts shown as 'Other Compensation' for Ms. Domuracki for 1997 include premiums paid by Company in respect of life insurance policies for the benefit of Ms. Domuracki in the amount of $1,470, a $2,375 matching contribution to the Savings Plan and a discretionary profit sharing contribution of $591 made by the Company in shares of common stock (314 shares).

Stock Option Grants in Last Fiscal Year

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The following table shows information for Fiscal Year 1998 respecting stock option grants to each named executive officer.

Fiscal 1998 Stock Option Grants to Named Executive Officers

<TABLE>
<CAPTION>

Name	Individual Grants: Number of Securities Underlying Options Granted	Individual Grants: Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	Grant Date Values: Present Value Grant Date (5)
<S>	<C>	<C>	<C>	<C>	<C>
Cathy Volker	2,550,000 (1)	54%	$0.65	1/31/08	739,500
Debbie Hobbs	225,000 (2)	5%	$1.63	5/18/08	211,500
Denise Landman	225,000 (3)	5%	$1.63	5/18/08	211,500
Margaret B. Pritchard	125,000 (4)	3%	$1.63	5/18/08	117,500
Beverly Eichel	0	N/A	N/A	N/A	N/A
Mary Ann Domuracki	0	N/A	N/A	N/A	N/A

</TABLE>

---

(1) Pursuant to the terms of a Stock Option Agreement between the Company and Ms. Volker dated February 2, 1998, Ms. Volker was granted six options, each representing the right to purchase 425,000 shares of Common Stock. The exercise price of the shares of Common Stock covered by each option is $ 0.65. Each option is generally exercisable until January 31, 2008, unless earlier terminated in accordance with the Stock Option Agreement. Such options were not issued under the Stock Option Plan.

(2) Pursuant to a Stock Option Agreement between the Company and Ms. Hobbs, dated October 1, 1998, Ms. Hobbs was granted 225,000 options to purchase Common Stock at a per share price of $1.625. The options vest over a four year period, and are, under certain circumstances, exercisable through October 1, 2008.

(3) Pursuant to a Stock Option Agreement between the Company and Ms. Landman, dated October 1, 1998, Ms. Landman was granted 225,000 options to purchase Common Stock at a per share price of $1.625. The options vest over a four year period, and are,

under certain circumstances, exercisable through October 1, 2008.

(4) Pursuant to a Stock Option Agreement between the Company and Ms. Pritchard, dated October 1, 1998, Ms. Pritchard was granted 125,000 options to purchase Common Stock at a per share price of $1.625. The options vest over a four year period, and are, under certain circumstances, exercisable through October 1, 2008.

(5) The present values on the grant date are calculated under the Black-Scholes valuation model. The Black-Scholes valuation model is a mathematical formula used to value options, and considers expected stock price volatility, the exercise period of the option and interest rates. Due to the historically thin trading of the Company's stock, expected volatility has been estimated based on the public trading histories of similar companies over the five years preceding each respective grant date. The Black-Scholes valuation model was chosen in accordance with Securities and Exchange Commission rules; however, this model should not be construed as an endorsement of its accuracy at valuing options. The real value of the options in this table depends upon the actual performance of the Common Stock during the applicable period.

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

The following table shows information for fiscal 1998 respecting stock options for each named executive officer.

<TABLE>
<CAPTION>

Name	Shares Acquired on Exercise	Value Realized	Numbers of Securities Underlying Unexercised Options at Fiscal Year End (1)	Value of Unexercised In-The-Money Options at Fiscal Year End(2)($)
<S>	<C>	<C>	<C>	<C>
M. Catherine Volker	-	$0	2,550,000	$586,500

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Beverly Eichel	-	$0	506,666	$293,866
Debbie Hobbs	-	$0	225,000	$0
Denise Landman	-	$0	225,000	$0
Margaret B. Pritchard	-	$0	225,000	$25,000
Mary Ann Domuracki	-	$0	680,000 (3)	$0

</TABLE>

----
(1) 539,999 options are presently exercisable.

(2) The value of an unexercised option at December 26, 1998 is determined by subtracting the exercise price of such option from the market value of a share of Common Stock on December 26, 1998, as published by the National Quotation Bureau.

(3) Pursuant to an agreement between the Company and Ms. Domuracki, such options are no longer exercisable by Ms. Domuracki.

Employment Agreements

M. Catherine Volker

On February 2, 1998, the Company entered into an employment agreement with Catherine Volker, employing her as Chief Executive Officer of the Company from March 2, 1998 until February 28, 2003, subject to earlier termination for death, resignation or removal. Ms. Volker's annual base salary is $375,000. She is entitled to receive an annual performance bonus of up to 100% of her base salary as determined by the Board of Directors, in its sole discretion, based on such quantitative and qualitative initiatives as indentified by the Board upon consultation with Ms. Volker and upon approval of the budget for the respective fiscal year. The Agreement provides that the performance bonus for fiscal year ended December 26, 1998 would be no less that $187,500. Under Ms. Volker's agreement, if she resigns her employment for `good reason' (as defined), if the Company terminates her employment without `cause' (as defined), or she resigns by reason of a `change of control' (as defined), the Company will be obligated to continue her base salary payments for a period of one year, and she will be entitled to a performance bonus in an amount equal to, depending upon the circumstance of her resignation or termination, fifty percent (50%) to one-hundred percent (100%) of the previous year's performance bonus.

Mary Ann Domuracki

On August 1, 1994, the Company entered into an employment agreement with Mary Ann Domuracki employing her as President and Chief Operating Officer until she resigned or was terminated. This agreement was amended as of April 4, 1996 to provide for her employment as Chief Executive Officer and was further amended, most recently, on September 27, 1997, in connection with the Capital Contribution. Her base salary compensation at the time she was replaced was $350,000. On March 2, 1998, Ms. Domuracki was replaced as Chief Executive Officer of the Company. Pursuant to the terms of her employment agreement, Ms. Domuracki was entitled to receive compensation and benefits under such agreement for the two year period following her replacement (offset by compensation received from any new employer after one year). Pursuant to an agreement reached between the Company and Ms. Domuracki, Ms. Domuracki will receive no compensation or benefits in respect of any period following the one year anniversary of her replacement.

Beverly Eichel

Beverly Eichel resigned her position as Chief Financial Officer by reason of "a change of control" effective September 25, 1998. Her base salary compensation at the time of her resignation was $250,000. Under her employment agreement, if Ms. Eichel resigned by reason of a "change of control," (as defined) (i) the Company would be obligated to continue her base salary payments for two years thereafter, at the annual rate of $250,000 (offset by compensation received from any new employer after one year), (ii) the Company would be obligated to make a prorated bonus payment for the fiscal year then in progress and (iii) any granted, but unvested, stock options that she held (excluding certain the options granted in connection with the amendment of her employment agreement described above in "--Stock Option Plan") would vest immediately.

Compensation Committee Interlocks and Insider Participation

All of the members of the Compensation Committee are non-employee directors of the Company and are not former officers of the Company or its subsidiaries. No executive officer of the Company serves as a member of the Board of Directors or on the compensation committee of a corporation for which any of the Company's

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

directors serving on the Compensation Committee or on the Board of Directors of the Company is an executive officer.

Compensation of Directors

Directors who are employees of the Company are not compensated for serving as directors. Directors who are not employees of the Company receive an annual retainer fee of $12,000 plus fees of $1,000 per day for attendance at meetings of the Board of Directors and $500 per day for attendance at meetings of its committees. Each of the directors appointed by Danskin Investors has agreed to waive receipt of such amount until such time as they, as a group, direct the Company to the contrary. All non-employee directors of the Company are reimbursed for out-of-pocket expenses. In addition, each non-employee director receives, upon such person's initial election as a director, a grant of an option to purchase 50,000 shares of the Common Stock under the Stock Option Plan at fair market value, exercisable in three equal installments on the first, second and third anniversaries of the grant date. Mr. Schupak has agreed to defer the grant of his options until an amendment to the Stock Option Plan has been approved by the stockholders, increasing the total number of shares reserved for issuance thereunder.

Although neither Mr. Schupak nor Ms. McLemore receives a salary from the Company, the Company provides for a payment of $10,000 per month to entities designated by each of Mr. Schupak and Ms. McLemore to defray their respective office overhead, and each is entitled to reimbursement of reasonable travel and other expenses incidental to the performance of their duties.

CERTAIN TRANSACTIONS

On September 22, 1997, in connection with the Capital Contribution, Donald Schupak (the Chairman of the Board of the Company) purchased from the Company, the Schupak Warrant for the purchase of 5,372,315 shares of Common Stock, subject to adjustment, at an exercise price of $.30 a share, subject to adjustment. On the Contribution Closing Date, in consideration of the sale of the Schupak Warrant, Mr. Schupak paid the Company the Warrant Price comprised of (x) $20,000 in cash and (y) the Schupak Promissory Note in the amount of $80,000. The outstanding principal balance of the Schupak Promissory Note bears interest at a rate of 6.55% per annum, to be paid annually on the anniversary of the Contribution Closing Date. The Schupak Warrant may be exercised, in whole at any time or in part from time to time, commencing on the date of effectiveness of an amendment to the Company's Amended and Restated Certificate of Incorporation increasing the number of its authorized shares to 100,000,000 and prior to 5:00 p.m., Eastern Standard Time, on September 22, 2004. In addition, each of David Chu and Nina McLemore, a director of the Company, purchased from the Company, for $14,815 and $29,607, respectively, a warrant for the purchase of 795,900 shares of Common Stock and 1,591,797 shares of Common Stock respectively, all at an exercise price of $.30 per share.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information, as of March 1, 1999, regarding the beneficial ownership of the Common Stock by (i) each person known to the Company to beneficially own more than 5% of the Common Stock; (ii) each director and each named executive officer; and (iii) all executive officers and directors of the Company as a group. A person is a beneficial owner if he or she has or shares voting power or investment power. On March 1, 1999, there were outstanding 21,019,878 shares of Common Stock (including 1,083 shares held by a subsidiary of the Company) and 2,400 shares of Series D Preferred Stock.

Name and Address of Beneficial Owner	Beneficial Ownership: Amount and Nature of Beneficial Ownership		Percent of Outstanding Voting Securities*
Danskin Investors, L.L.C.(1) 9595 Wilshire Boulevard Beverly Hills, CA 90212	56,224,370 2,311.7	Common Stock Series D Preferred Stock	79.58% 96.3%
The Oppenheimer Bond Fund For Growth(1) 350 Linden Oaks Rochester, NY 14625	5,607,887 88.3	Common Stock Series D Preferred Stock	9.14% 3.7%
Donald Schupak (2)	5,392,315 0	Common Stock Series D Preferred Stock	8.12% 0%

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Nina McLemore (3)	1,598,463	Common Stock	2.55%
	0	Series D Preferred Stock	0%
David Chu (4)	802,566	Common Stock	1.30%
	0	Series D Preferred Stock	0%
M. Catherine Volker	897,450	Common Stock	1.47%
	0	Series D Preferred Stock	0%
Margaret B. Pritchard (5)	33,333	Common Stock	0.05%
	0	Series D Preferred Stock	0%
Debbie Hobbs	0	Common Stock	0%
	0	Series D Preferred Stock	0%
Denise Landman	0	Common Stock	0%
	0	Series D Preferred Stock	0%
Henry T. Mortimer, Jr. (6)	20,000	Common Stock	0.03%
	0	Series D Preferred Stock	0%
Larry B. Shelton (6)	20,000	Common Stock	0.03%
	0	Series D Preferred Stock	0%
Andrew J. Astrachan (7)	6,666	Common Stock	0.01%
	0	Series D Preferred Stock	0%

</TABLE>

<TABLE>

<S>	<C>		<C>
Gabriel Brener (7)	6,666	Common Stock	0.01%
	0	Series D Preferred Stock	0%
Michael Hsieh (7)	6,666	Common Stock	0.01%
	0	Series D Preferred Stock	0%
James P. Jalil (7)	6,666	Common Stock	0.01%
	0	Series D Preferred Stock	0%
Beverly Eichel (8)	506,666	Common Stock	0.82%
	0	Series D Preferred Stock	0%
Mary Ann Domuracki (9)	0	Common Stock	0%
	0	Series D Preferred Stock	0%
All directors and executive officers as a group (15 persons) (10)	8,790,791	Common Stock	12.76%
	0	Series D Preferred Stock	0%

</TABLE>

----

* For the purpose of this calculation, the outstanding voting securities of the Company include 21,019,878 shares of Common Stock presently issued and 40,000,000 shares of Common Stock, issuable upon the conversion of the Series D Preferred Stock that the holders of the Series D Preferred Stock are currently entitled to vote.

(1) The amount shown as Common Stock includes those shares of Common Stock issuable upon conversion of the shares of Series D Preferred Stock held by the beneficial owner and a presently exercisable warrant. Each share of Series D Preferred Stock entitles the holder thereof to one vote per share for each share of Common Stock that would be issued upon conversion of a share of Series D Preferred Stock (16,666.66 votes per share).

(2) Includes 5,372,315 shares of Common Stock underlying a presently exercisable warrant and 20,000 shares of Common Stock underlying presently exercisable options which, if granted, would have vested upon the change of control resulting from the Capital Contribution. Mr. Schupak was entitled to the automatic grant of an option to purchase 20,000 shares of Common Stock upon his appointment as a Director of the Company, but agreed to defer such

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

grant until an amendment to the Stock Option Plan has been approved by the stockholders, increasing the total number of shares reserved for issuance upon exercise of options granted thereunder.

(3) Includes 1,591,797 shares of Common Stock underlying a presently exercisable warrant and 6,666 shares of Common Stock underlying presently exercisable options.

(4) Includes 795,900 shares of Common Stock underlying a presently exercisable warrant and 6,666 shares of Common Stock underlying presently exercisable options.

(5) Includes 33,333 shares of Common Stock underlying presently exercisable options.

(6) Includes 20,000 shares of Common Stock underlying presently exercisable options.

(7) Includes 6,666 shares of Common Stock underlying presently exercisable options.

(8) Includes 506,666 shares of Common Stock underlying presently exercisable options.

(9) Ms. Domuracki was replaced as Chief Executive Officer of the Company on March 2, 1998. Pursuant to an agreement between the Company and Ms. Domuracki, such options are no longer exercisable by Ms. Domuracki.

(10) Includes 133,329 shares of Common Stock issuable upon the exercise of presently exercisable stock options (including options to purchase 20,000 shares of Common Stock to which Mr. Schupak became entitled upon his appointment as a director described in Note 2 above), 7,760,012 shares of Common Stock issuable upon the purchase of shares of Common Stock pursuant to presently exercisable warrants and 897,450 shares of Common Stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with the Company's issuance of the Schupak warrant, Mr. Schupak executed a seven-year promissory note in favor of the Company in the original principal amount of $80,000. The promissory note bears interest at 6.55% per annum, payable annually.

PART IV

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

(a) Exhibits

1. Financial Statements

2. Financial Statement Schedules

The financial statements and financial statement schedules included in this Annual Report on Form 10-K are listed in the accompanying Index to the Financial Statements on Page F-1 of this Form 10-K.

All other schedules have been omitted because the required information is shown in the Consolidated Financial Statements or Notes thereto or they are not applicable.

3. Exhibits

The Exhibits designated by an asterisk are management contracts and compensatory plans and arrangements required to be filed as Exhibits to this Form 10-K.

Exhibit Number	Description
3.1.1	Amended and Restated Certificate of Incorporation of the Registrant. (Incorporated by reference to Exhibit 3.1.1 to the Registration Statement of the Registrant on Form S-1 (Reg. No. 33-49274)(the "Registration Statement").)
3.1.2	Certificate of Correction, dated July 9, 1992, of the Amended and Restated Certificate of Incorporation of the Registrant. (Incorporated by reference to Exhibit 3.1.2 to Amendment No. 1 to the Registration Statement ("Amendment No. 1").)
3.1.3	Certificate of Amendment, dated the 27th day of January 1998 to the Amended and Restated Certificate of Incorporation of the Registrant. (Incorporated by reference to Exhibit 3.1.3 to the

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Registrant's Form 10-K for the year ended December 27, 1997.)

3.2 Amended and Restated Certificate of Incorporation of the Registrant dated as of January 27, 1998.

4.1 Form of Certificate for Common Stock of the Registrant. (Incorporated by reference to Exhibit 4.1 to Amendment No. 1.)

4.2 Securities Purchase Agreement, dated as of September 22, 1997, between the Registrant and Danskin Investors, LLC. (Incorporated by reference to Registrant's Form 8-K dated September 22, 1997.

4.2.1 Form of Warrant Issued to Danskin Investors, LLC. (Incorporated by reference to Registrant's Form 8-K dated September 22, 1997.

4.2.2 Certificate of Designations of Series C Cumulative Convertible Preferred Stock (Incorporated by reference to the Registrant's Form 8-K dated September 22, 1997.

4.2.3 Certificate of Designations of Series D Cumulative Convertible Preferred Stock. (Incorporated by reference to the Registrant's Form 8-K dated September 22, 1997.)

4.2.4 Promissory Notes of the Registrant's in favor of Danskin Investors, LLC. (Incorporated by reference to the Registrant's Form 8-K dated September 22, 1997.)

10.1.1 Tax Refund Agreement, dated July 22, 1986, by and among Danpen, Inc., Beatrice Companies, Inc. and Esmark, Inc. (Incorporated by reference to Exhibit 10.1.1 to the Registration Statement.)

10.1.2 Supplemental Tax Refund Agreement, dated March 15, 1990, among Beatrice Companies, Inc., Esmark, Inc., Danpen, Inc. and the Registrant. (Incorporated by reference to Exhibit 10.1.2 to the Registration Statement.)

10.5.1 Lease Agreement, dated October 16, 1986, between the Registrant and Robert H. Arnow, relating to leasehold interest at 111 West 40th Street, New York, New York, as amended, and related agreement. (Incorporated by reference to Exhibit 10.5.1 to the Registration Statement.)

10.5.4 Lease Agreement, dated March 22, 1996, between the City of Grenada, Mississippi and the Registrant. (Incorporated by reference to Exhibit 10.5.4 to the Registrant's Form 10-Q for the fiscal quarter ended September 28, 1996.)

10.5.5 Agreements in connection with Industrial Revenue Bond for property located at 1261 South Commerce Street, Grenada, Mississippi, between the City of Grenada, Mississippi and the Registrant (as assignee of International Playtex, Inc.). (Incorporated by reference to Exhibit 10.5.5 to Amendment No. 1.)

10.5.7 Agreement between the Pennaco division and the City of Grenada, Mississippi, relating to the issuance by the City of Grenada of $1,500,000 principal amount of bonds to finance the construction of a distribution center to be owned by the City of Grenada and leased to the Pennaco division. (Incorporated by reference to Exhibit 10.5.7 to Amendment No. 2 to the Registration Statement ("Amendment No. 2").)

10.5.11 Lease Agreement between Paul Klinge A/S and the Registrant. (Incorporated by reference to Exhibit 10.5.11 to Amendment No. 2.)

10.5.12 Addendum to Lease between Henrik Klinge and the Registrant dated August 23, 1996. (Incorporated by reference to Exhibit 10.5.12 to the Registrant's Form 10-Q for the fiscal quarter ended September 28, 1996.)

*10.6.2B Employment Agreement dated April 1, 1996 between the Registrant and Edwin W. Dean. (Incorporated by reference to Exhibit 10.6.2B to the Registrant's Form 10-Q for the fiscal quarter ended March 30, 1996.)

*10.6.3A Amended Employment Agreement, dated April 1, 1994, between the Registrant and Mary Ann Domuracki. (Incorporated by reference to Exhibit 10.6.3A to the Registrant's Form 10-Q for the fiscal quarter ended June 25, 1994.)

*10.6.3B Amendment One, effective November 1, 1994, to the amended Employment Agreement, dated April 1, 1994, between the Registrant and Mary Ann Domuracki. (Incorporated by reference to Exhibit 10.6.3B to the Registrant's Form 10-Q for the fiscal quarter ended September 24, 1994.)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

*10.6.3C Amendment Two, effective January 1, 1995, to the amended Employment Agreement, dated August 1, 1994, between the Registrant and Mary Ann Domuracki. (Incorporated by reference to Exhibit 10.6.3C to the Registrant's Form 10-Q for the fiscal quarter ended December 24, 1994.)

*10.6.3D Amendment Three, effective April 1, 1996, to the amended Employment Agreement, dated August 1, 1994, between the Registrant and Mary Ann Domuracki. (Incorporated by reference to Exhibit 10.6.3D to the Registrant's Form 10-Q for the fiscal quarter ended September 28, 1996.)

*10.6.3E Amendment Four, effective as of November 1, 1996, to Amended Employment Agreement dated as of August 1, 1994 between the Registrant and Mary Ann Domuracki. (Incorporated by reference to Exhibit 10.6.3E to the Registrant's Form 10-K for the year ended December 27, 1997.)

*10.6.3F Amendment Five, effective as of September 22, 1997, to Amended Employment Agreement dated as of August 1, 1994 between the Registrant and Mary Ann Domuracki. (Incorporated by reference to Exhibit 10.6.3F to the Registrant's Form 10-K for the year ended December 27, 1997.)

*10.6.4A.1 Employment Agreement, dated August 1, 1994, between the Registrant and Beverly Eichel. (Incorporated by reference to Exhibit 10.6.4A.1 to the Registrant's Form 10-K for the fiscal year ended March 25, 1995.)

*10.6.4B Amendment One, effective November 1, 1994, to the Employment Agreement, dated August 1, 1994, between the Registrant and Beverly Eichel. (Incorporated by reference to Exhibit 10.6.4B to the Registrant's Form 10-Q for the fiscal quarter ended September 24, 1994.)

*10.6.4C Amendment Two, effective January 1, 1995, to the amended Employment Agreement, dated August 1, 1994, between the Registrant and Beverly Eichel. (Incorporated by reference to Exhibit 10.6.4C to the Registrant's Form 10-Q for the fiscal quarter ended December 24, 1994.)

*10.6.4D Amendment Three, effective April 1, 1996, to the amended Employment Agreement, dated August 1, 1994, between the Registrant and Beverly Eichel. (Incorporated by reference to Exhibit 10.6.4D to the Registrant's Form 10-Q for the fiscal quarter ended September 28, 1996.)

*10.6.4E Amendment Four effective as of November 1, 1996 to Amended Employment Agreement dated as of August 1, 1994 between the Registrant and Beverly Eichel. (Incorporated by reference to Exhibit 10.6.4E to the Registrant's Form 10-Q for the fiscal quarter ended March 29, 1997.)

*10.6.4F Amendment Five effective as of September 22, 1997 to Amended Employment Agreement dated as of August 1, 1994 between the Registrant and Beverly Eichel. (Incorporated by reference to Exhibit 10.6.4F to the Registrant's Form 10-K for the year ended December 27, 1997.)

*10.6.5 Employment Agreement, dated February 2, 1998, between the Registrant and Catherine Volker. (Incorporated by reference to Exhibit 10.6.5 to the Registrant's Form 10-K for the year ended December 27, 1997.)

*10.6.6 Stock Option Plan and Agreement, dated February 2, 1998, between the Registrant and Catherine Volker. (Incorporated by reference to Exhibit 10.6.6 to the Registrant's Form 10-K for the year ended December 27, 1997.)

*10.8.1 1992 Stock Option Plan of the Registrant, together with form of Non-Qualified Stock Option Agreement. (Incorporated by reference to Exhibit 10.8.1 to the Registration Statement.)

*10.8.1A Amendment No. 1 to the 1992 Stock Option Plan of the Company. (Incorporated by reference to Exhibit 10.8.1A to the Registrant's Form 10-K for the fiscal year ended March 27, 1993.)

*10.8.2 Savings Plan of the Registrant, as amended. (Incorporated by reference to Exhibit 4.1 to the Registration Statement of the Registrant on Form S-8 (Reg. No. 33-53852).)

10.10.1A Renewal license agreement dated December 29, 1993 between Givenchy

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

and the Registrant. (Incorporated by reference to Exhibit 10.10.1A to the Registrant's Form 10-Q for the fiscal quarter ended December 25, 1994.)

10.10.2B Renewal license agreement dated January 26, 1996 between Anne Klein & Company and the Pennaco Division of Danskin, Inc. (Incorporated by reference to Exhibit 10.10.2A to the Registrant's Form 10-Q for the fiscal quarter ended March 30, 1996.)

10.10.3 License agreement, dated as of October 1, 1994, between SsangYong (U.S.A.), Inc. and the Registrant. (Incorporated by reference to Exhibit 10.10.3 to the Registrant's Form 10-Q for the fiscal quarter ended September 24, 1994.)

10.10.5 License agreement, dated June 1, 1995, between Canari Cycle Wear, a Division of Kassach Marketing and the Registrant. (Incorporated by reference to Exhibit 10.10.5 to the Registrant's Form 10-K for the fiscal year ended March 25, 1995.)

10.10.6 License Agreement dated November 1, 1996 between Wundies, Inc. and the Registrant. (Incorporated by reference to Exhibit 10.10.6 to the Registrant's Form 10-Q for the fiscal quarter ended June 28, 1997.)

10.16.25 Amended and restated Loan and Security Agreement, dated as of June 22, 1995, between the Registrant and First Union, with attachments and exhibits. (Incorporated by reference to Exhibit 10.16.25 to the Registrant's Form 10-K for the fiscal year ended March 25, 1995.)

10.16.25A First Amendment, dated August 17, 1995, to the Amended and Restated Loan Agreement between the Registrant and First Union National Bank of North Carolina, as Agent. (Incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K dated August 17, 1995.)

10.16.25B Second Amendment dated February 29, 1996 to the Amended and Restated Loan Agreement between the Registrant and First Union National Bank of North Carolina, as Agent. (Incorporated by reference to Exhibit 10.16.25B to the Registrant's Form 10-K for the nine-month transition period ended December 30, 1995.)

10.16.25C Third Amendment dated March 18, 1996 to the Amended and Restated Loan Agreement between the Registrant and First Union National Bank of North Carolina, as Agent. (Incorporated by reference to Exhibit 10.16.25C to the Registrant's Form 10-K for the nine-month transition period ended December 30, 1995.)

10.16.25D Fourth Amendment dated July 31, 1996 to the Amended and Restated Loan Agreement between the Registrant and First Union National Bank of North Carolina, as Agent. (Incorporated by reference to Exhibit 10.16.25D to the Registrant's Form 10-Q for the fiscal quarter ended December 25, 1993)

10.31## Financial Data Schedule.

21.1## Subsidiaries of the Registrant.

23.1## Consent of Arthur Andersen, LLP.

23.2## Consent of Deloitte & Touche LLP

99.1 Press release dated May 20, 1997. (Incorporated by reference to Exhibit 99.1 to the Registrant's Form 8K dated May 19, 1997.)

99.2 Press release dated September 23, 1997. (Incorporated by reference to the Registrant's Form 8-K dated September 22, 1997.)

Filed herewith

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the fiscal year ended December 26, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DANSKIN, INC.

By /s/ M. Catherine Volker

M. Catherine Volker
Chief Executive Officer

Date: March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity in Which Signed	Date
/s/ M. Catherine Volker M. Catherine Volker	Chief Executive Officer	March 26, 1999
/s/ Donald Schupak Donald Schupak	Chairman of the Board	March 26, 1999
/s/ Nina McLemore Nina McLemore	Vice Chairperson of the Board	March 26, 1999
/s/ Jeffrey L. Sentz Jeffrey L. Sentz	Controller	March 26, 1999
/s/ Andrew J. Astrachan Andrew J. Astrachan	Director	March 26, 1999
/s/ Gabriel Brener Gabriel Brener	Director	March 26, 1999
/s/ David Chu David Chu	Director	March 26, 1999
/s/ Michael Hsieh Michael Hsieh	Director	March 26, 1999
/s/ James P. Jalil James P. Jalil	Director	March 26, 1999
/s/ Larry Shelton Larry Shelton	Director	March 26, 1999
/s/ Henry T. Mortimer Henry T. Mortimer	Director	March 26, 1999

DANSKIN, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Public Accountants	F-2
Report of Previous Independent Public Accountants	F-3

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Consolidated Financial Statements as of December 27, 1997 and December 26, 1998, and for the fiscal years ended December 28, 1996, December 27, 1997 and December 26, 1998:

Consolidated Balance Sheets as of December 27, 1997 and December 26, 1998	F-4
Consolidated Statements of Operations for the fiscal years ended December 28, 1996, December 27, 1997 and December 26, 1998	F-5
Consolidated Statements of Stockholders' Equity for the fiscal years ended December 28, 1996, December 27, 1997 and December 26, 1998	F-6
Consolidated Statements of Cash Flows for the fiscal years ended December 28, 1996, December 27, 1997 and December 26, 1998	F-7
Notes to Consolidated Financial Statements	F-8 to F-25
Supplemental Financial Information:	
Unaudited Selected Quarterly Financial Information	S-1
Financial Statement Schedule:	
Schedule II - Schedule of Valuation and Qualifying Accounts	S-2

</TABLE>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To The Board of Directors of DANSKIN, INC.:

We have audited the accompanying consolidated balance sheets of Danskin, Inc. (a Delaware Corporation) and Subsidiaries (the "Company") as of December 26, 1998 and December 27, 1997, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the fiscal years then ended. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Danskin, Inc. and Subsidiaries as of December 26, 1998 and December 27, 1997, and the results of their operations and their cash flows for the fiscal years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to consolidated financial statements is presented for purposes of complying with the Securities and Exchange Commission rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

New York, New York
March 5, 1999

REPORT OF PREVIOUS INDEPENDENT PUBLIC ACCOUNTANTS

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

To The Board of Directors of DANSKIN, INC.:

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Danskin, Inc. and Subsidiaries (the "Company") for the year ended December 28, 1996. Our audit also included the financial statement schedule listed in the Index on page F-1. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit 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 disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Danskin, Inc. and Subsidiaries for the year ended December 28, 1996 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated statements, taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

New York, New York
March 14, 1997 (Except for Note 1 - Loss per Common Share,
for which the date is March 6, 1998)

DANSKIN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

ASSETS	December 27, 1997	December 26, 1998
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 808,000	$ 546,000
Accounts receivable, less allowance for doubtful accounts of $848,000 at December 27, 1997 and $1,021,000 at December 26, 1998	14,935,000	13,518,000
Inventories	28,714,000	30,386,000
Prepaid expenses and other current assets	1,926,000	2,256,000
Total current assets	46,383,000	46,706,000
Property, plant and equipment - net of accumulated depreciation and amortization of $8,671,000 at December 27, 1997 and $8,807,000 at December 26, 1998	7,591,000	9,773,000
Other assets	1,028,000	1,227,000
Total Assets	$ 55,002,000	$ 57,706,000
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Revolving line of credit	$ 8,539,000	$ 16,029,000
Current portion of long-term debt	333,000	2,000,000
Accounts payable	8,043,000	8,440,000
Accrued expenses	10,398,000	13,692,000
Total current liabilities	27,313,000	40,161,000
Long-term debt, net of current maturities	9,667,000	6,674,000
Subordinated debt	3,000,000	-
Accrued dividends	216,000	1,176,000
Accrued retirement costs	1,985,000	2,301,000
Total long-term liabilities	14,868,000	10,151,000
Total Liabilities	42,181,000	50,312,000

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Commitments and contingencies		
Series D Cumulative Convertible Preferred Stock, 2,400 shares, Liquidation Value of $12,000,000	11,140,000	11,294,000
Stockholders' Equity (Deficit)		
Common Stock, $.01 par value, 100,000,000 shares authorized, 10,074,290 shares issued at December 27, 1997 and 20,916,693 shares issued at December 26, 1998, less 1,083 shares held by subsidiary at December 27, 1997 and December 26, 1998	101,000	209,000
Additional paid-in capital	20,366,000	23,483,000
Accumulated deficit	(16,511,000)	(24,546,000)
Accumulated other comprehensive (loss)	(2,275,000)	(3,046,000)
Total Stockholders' Equity (Deficit)	1,681,000	(3,900,000)
Total Liabilities and Stockholders' Equity (Deficit)	$ 55,002,000	$ 57,706,000

</TABLE>

See Notes to Consolidated Financial Statements.

DANSKIN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

<S>	Fiscal Year Ended December 28, 1996 <C>	Fiscal Year Ended December 27, 1997 <C>	Fiscal Year Ended December 26, 1998 <C>
Net revenues	$ 128,145,000	$ 121,986,000	$ 108,741,000
Cost of goods sold	83,610,000	81,822,000	68,428,000
Gross profit	44,535,000	40,164,000	40,313,000
Selling, general and administrative expenses	42,069,000	40,125,000	41,785,000
Non-recurring charges	-	300,000	2,419,000
Provision for doubtful accounts receivable	(43,000)	49,000	327,000
Interest expense	4,721,000	4,278,000	2,513,000
	46,747,000	44,752,000	47,044,000
Loss before income tax provision and extraordinary item	(2,212,000)	(4,588,000)	(6,731,000)
Provision for income taxes	2,777,000	245,000	190,000
Net loss before extraordinary items	(4,989,000)	(4,833,000)	(6,921,000)
Extraordinary gain from early retirement of debt	-	5,245,000	-
Net (loss) income	(4,989,000)	412,000	(6,921,000)
Preferred dividends	202,000	425,000	1,114,000
Net (loss) applicable to Common Stock	($5,191,000)	($13,000)	($8,035,000)
Basic and diluted net (loss) per share:			
Net (loss) per share before extraordinary item	($0.80)	($0.66)	($0.50)
Net income per share for extraordinary item	-	$0.66	-
Net (loss) per share after extraordinary item	($0.80)	($0.00)	($0.50)
Weighted average number of common shares outstanding	6,513,000	7,942,000	16,168,000

</TABLE>

See Notes to Consolidated Financial Statements.

DANSKIN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

<S>	Preferred Stock <C>	Stock Amount <C>	Common Stock Outstanding <C>	Amount <C>	Additional Paid-in Capital <C>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Balance, December 30, 1995			5,921,375	$59,000	$14,614,000
Comprehensive (loss)					
Net loss					
Accumulated translation adjustment					
Minimum pension liability adjustment					
Total Comprehensive (loss)					
Preferred stock dividend				-	
Purchase and retirement of Common Stock			(41,013)	-	(140,000)
Sales and contribution of Common Stock to Employee Savings Plan			55,893	1,000	178,000
Common Stock option exercises			110,000	1,000	318,000
Issuance of Preferred Stock	1,000	-			4,695,000
	-----	----	---------	-------	-----------
Balance, December 28, 1996	1,000	-	6,046,255	$61,000	$19,665,000
Comprehensive Income					
Net income					
Accumulated translation adjustment					
Minimum pension liability adjustment					
Total Comprehensive Income					
Preferred stock dividend			56,689	1,000	124,000
Reversal of accrued preferred stock dividend - 1996					
Common Stock dividend			511,171	5,000	148,000
Purchase and retirement of Common Stock			(9,415)	-	(20,000)
Sales and contribution of Common Stock to Employee Savings Plan			32,293	-	60,000
Exchange of 10% Cumulative Preferred Stock for shares of Common Stock	(1,000)	-	3,333,333	33,000	(33,000)
Preferred stock dividend			102,881	1,000	124,000
Series D preferred dividend					
Warrants					359,000
Rights Redemption					(61,000)
	-----	----	---------	-------	-----------
Balance, December 27, 1997	-	-	10,073,207	$101,000	$20,366,000
Comprehensive (loss)					
Net loss					
Minimum pension liability adjustment					
Total Comprehensive (loss)					
Preferred stock dividend					
Sales and contribution of Common Stock to Employee Savings Plan			92,403	1,000	49,000
Employee Stock Grant			750,000	7,000	439,000
Private Offering			7,864,336	79,000	2,281,000
Rights Offering			2,135,664	21,000	319,000
Warrants Issued					29,000
	-----	----	---------	-------	-----------
Balance, December 26, 1998	-	-	20,915,610	$209,000	$23,483,000

</TABLE>

<TABLE>
<CAPTION>

	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
<S>	<C>	<C>	<C>
Balance, December 30, 1995	($11,154,000)	($2,000,000)	$1,519,000
Comprehensive (loss)			
Net loss	(4,989,000)		(4,989,000)
Accumulated translation adjustment		(15,000)	(15,000)
Minimum pension liability adjustment		(565,000)	(565,000)

Total Comprehensive (loss)			(5,569,000)

Preferred stock dividend	(202,000)		(202,000)
Purchase and retirement of Common Stock			(140,000)
Sales and contribution of Common Stock to Employee Savings Plan			179,000
Common Stock option exercises			319,000
Issuance of Preferred Stock			4,695,000
	------------	-----------	---------
Balance, December 28, 1996	($16,345,000)	($2,580,000)	$801,000

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Comprehensive Income			
Net income	412,000		412,000
Accumulated translation adjustment		15,000	15,000
Minimum pension liability adjustment		290,000	290,000

Total Comprehensive Income			717,000

Preferred stock dividend	(125,000)		-
Reversal of accrued preferred stock dividend - 1996	41,000		41,000
Common Stock dividend	(153,000)		-
Purchase and retirement of Common Stock			(20,000)
Sales and contribution of Common Stock to Employee Savings Plan			60,000
Exchange of 10% Cumulative Preferred Stock			-
for shares of Common Stock			-
Preferred stock dividend	(125,000)		
Series D preferred dividend	(216,000)		(216,000)
Warrants			359,000
Rights Redemption			(61,000)
	------------	-----------	---------
Balance, December 27, 1997	($16,511,000)	($2,275,000)	$1,681,000
Comprehensive (loss)			
Net loss	(6,921,000)		(6,921,000)
Minimum pension liability adjustment		(771,000)	(771,000)

Total Comprehensive (loss)			(7,692,000)

Preferred stock dividend	(1,114,000)		(1,114,000)
Sales and contribution of Common Stock to Employee Savings Plan			50,000
Employee Stock Grant			446,000
Private Offering			2,360,000
Rights Offering			340,000
Warrants Issued			29,000
	------------	-----------	---------
Balance, December 26, 1998	($24,546,000)	($3,046,000)	($3,900,000)
	============	===========	===========

</TABLE>

See Notes to Consolidated Financial Statements.

DANSKIN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

<S>	Fiscal Year Ended December 28, 1996 <C>	Fiscal Year Ended December 27, 1997 <C>	Fiscal Year Ended December 26, 1998 <C>
Cash Flows From Operating Activities:			
Net (loss) Income	($4,989,000)	$412,000	($6,921,000)
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization	2,616,000	2,476,000	1,727,000
Write off of certain trademarks	-	-	184,000
Extraordinary gain from early retirement of debt	-	(5,245,000)	-
Stock grants issued	-	-	446,000
Provision for doubtful accounts receivable	(43,000)	49,000	327,000
Loss on property, plant and equipment	28,000	68,000	954,000
Deferred income taxes	2,536,000	-	-
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(1,419,000)	1,109,000	1,090,000
(Increase) decrease in inventories	(3,226,000)	5,361,000	(1,672,000)
(Increase) in prepaid expenses and other current assets	(62,000)	(1,553,000)	(698,000)
Increase (decrease) in accounts payable	321,000	(1,639,000)	397,000
Increase (decrease) in accrued expenses	77,000	(2,184,000)	2,693,000
	----------	----------	----------
Net Cash used in operating activities	(4,161,000)	(1,146,000)	(1,473,000)
	----------	----------	----------
Cash Flows From Investing Activites:			
Capital expeditures	(738,000)	(241,000)	(4,673,000)
	----------	----------	----------
Net cash used in investing activities	(738,000)	(241,000)	(4,673,000)
	----------	----------	----------
Cash Flows From Financing Activities:			
Net borrowings (repayments) under revolving line of credit	5,868,000	(1,430,000)	7,490,000
Repayments of long-term debt	(411,000)	(333,000)	(1,326,000)

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Sale of Common Stock	-	-	3,000,000
Expenses associated with issuance of rights to purchase Common Stock	-	-	(299,000)
Payment of subordinated debt	-	-	(3,000,000)
Purchase and retirement of Common Stock	(139,000)	(20,000)	-
Sale of Common Stock to Savings Plan	79,000	60,000	49,000
Common Stock option exercises	318,000	-	-
Expenses associated with issuance of Preferred Stock	(305,000)	-	-
Proceeds from recapitalization	-	4,000,000	-
Proceeds from warrant notes	-	-	15,000
Financing costs incurred	(275,000)	(1,259,000)	(45,000)
Preferred Stock dividend	(202,000)	-	-
Net cash provided by financing activities	4,933,000	1,018,000	5,884,000
Net increase (decrease) in Cash and Cash Equivalents	34,000	(369,000)	(262,000)
Cash and Cash Equivalents, Beginning of Period	1,143,000	1,177,000	808,000
Cash and Cash Equivalents, End of period	$ 1,177,000	$ 808,000	$ 546,000
Supplemental Disclosure of Cash Flow Information:			
Interest Paid	$ 4,242,000	$ 3,767,000	$ 2,282,000
Income Taxes Paid	123,000	345,000	60,000
Cash refunds received for income taxes	(10,000)	(121,000)	(29,000)

</TABLE>

Non-Cash Activities
The Company declared a stock dividend of 1 share for every 11.99 shares of common stock on 9/29/97.
Early extinguishment of long term debt resulted in an extraordinary gain of $5,245,000
The Company issued 159,570 shares to the Bond Fund for Growth as a dividend in lieu of cash on 9/22/97
The Company issued a stock grant of 750,000 shares at $.594 to the CEO in February 1998.

See Notes to Consolidated Financial Statements.

DANSKIN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Danskin, Inc. (the "Company") was incorporated on February 21, 1986 to own and operate the business and assets of two divisions of a corporation acquired on July 22, 1986.

The Company currently operates under two divisions: Danskin, which designs, manufactures and markets dancewear, bodywear, tights and exercise apparel; and also operates 43 retail outlet stores and 3 full price stores; and Pennaco, which designs, manufactures and markets hosiery under the brand names Ralph Lauren(R), Round-the-Clock(R), Givenchy(R), and under private labels for major retailers, as well as socks under Round-the-Clock(R) and Danskin(R) brands. The Company renewed the Givenchy Corporation license for three years and allowed its license arrangement with Anne Klein to expire in December 1998.

BASIS OF PRESENTATION

The consolidated financial statements of the Company include the accounts of the Company, including both of its operating divisions, and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Certain reclassifications were made to prior year information to conform to current year presentation.

FISCAL YEAR

The Company's fiscal year ends on the last Saturday in December. Fiscal 1996 ended on December 28, 1996, fiscal 1997 ended on December 27, 1997 and fiscal 1998 ended on December 26, 1998. In addition, all fiscal years presented contain 52 weeks.

INVENTORIES

Inventories are stated at the lower of cost or market on a first-in, first-out basis. Inventories consist of:

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

	December 28, 1997	December 26, 1998
Finished goods	$17,557,000	$18,735,000
Work-in-process	5,749,000	6,271,000
Raw materials	4,708,000	4,725,000
Packaging Materials	700,000	655,000
	$28,714,000	$30,386,000

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Furniture and fixtures, machinery and equipment and buildings are depreciated by the straight-line method over the estimated useful lives of the assets, ranging from 5 to 20 years. Leasehold improvements are amortized by the straight-line method over the related lease terms or the estimated useful life of the asset, whichever is less.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EXCESS OF PURCHASE PRICE OVER FAIR VALUE OF NET TANGIBLE ASSETS ACQUIRED

The excess of purchase price over fair value of net tangible assets acquired is amortized on a straight-line basis over 20 years.

DEFERRED FINANCING CHARGES

Deferred financing charges are amortized over the respective terms of debt obtained under financing agreements.

CASH EQUIVALENTS

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

TRADEMARKS

The Company amortizes capitalized costs to acquire trademarks over the estimated useful life of the trademark, generally 15 years.

INCOME (LOSS) PER COMMON SHARE

Basic income (loss) per share is calculated by dividing net income (loss) applicable to Common Stock by the weighted average Common Stock outstanding during the period. Diluted net income (loss) per share is calculated by dividing net income (loss) applicable to Common Stock by the weighted average Common Stock and Common Stock equivalents outstanding. Common Stock equivalents, including Convertible Series D Preferred Stock, management options and warrants, are reflected in diluted net income (loss) per share except to the extent they are antidilutive.

At December 26, 1998 the Company had the following common shares and common shares equivalents outstanding:

Common Stock	20,916,693
Preferred Stock	40,000,000
Warrants	17,760,012
Options	5,519,442
Total Shares and Share Equivalents Outstanding	84,196,147

Due to the net loss before extraordinary item for all periods presented, the assumed exercise of common stock equivalents would be antidilutive and thus such instruments have not been included as common stock equivalents for purposes of the calculation of diluted earnings per share.

Net income (loss) per share has been restated for all periods presented to reflect a stock dividend of one share for every 11.99 shares of Common Stock declared on September 29, 1997.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-cash activities

The Company contributed 29,629 of its common shares to the Danskin, Inc. Savings Plan on March 22, 1996 at a fair market value of approximately $100,000.

The Company issued 7% warrants to First Union National Bank in July 1994, subsequently increased in June 1995 to 10%, of the then outstanding common stock. The warrants were surrendered to the Company without the payment of further consideration in connection with the refinancing of the Company's revolving credit obligations (See Note 11). Such warrants have been recorded as additional financing fees totaling $764,000 and additional paid-in-capital equity. The unamortized portion of such fees was offset against an extraordinary gain from the early retirement of debt during the 1997 fiscal year.

The Company issued 10% Cumulative Convertible Preferred Stock with a $5,000,000 principal value on August 6, 1996, in exchange for subordinated convertible debentures having an aggregate face value of $5,000,000. By agreement, between the Company and the holder of the 10% Cumulative Preferred Stock, such preferred stock, and any accrued but unpaid dividends, were exchanged for 3,436,214 shares of Common Stock and certain additional consideration (See Note 12).

The Series D Preferred Stock is presented at its fair value at the date of issuance, as determined by an independent valuation firm, less fees incurred to effect the placement of the Series D Preferred Stock. The difference between this amount and the Series D Preferred Stock's liquidation value of $12,000,000 is being amortized over the period through the October 8, 2004 maturity of the Series D Preferred Stock as a component of preferred stock dividends.

Pursuant to the terms of the Employment Agreement between the Company and Ms. Volker dated February 2, 1998, Ms. Volker was granted 750,000 shares of Common Stock and recorded an expense of $446,000 which is included as a component of selling, general and administrative expenses.

Advertising and Promotion

All costs associated with advertising and promoting products are expensed when the advertising or event takes place. Costs associated with the Company's catalogs are expensed when the catalogs are distributed. Advertising and promotion expenses were $6.5 million in 1996, $6.0 million in fiscal 1997 and $7.4 million in fiscal 1998.

INCOME TAXES

The Company accounts for its income taxes in accordance with SFAS No. 109, "Accounting For Income Taxes", which requires the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-LIVED ASSETS

The Company continually evaluates the carrying value and the economic useful life of its long-lived assets based upon the Company's operating performance and its expected future net cash flows and will adjust the carrying amount of assets which may not be recoverable. The Company does not believe that any impairment exists in the recoverability of its long-lived assets as of the fiscal year end.

USE OF ESTIMATES

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STOCK-BASED COMPENSATION

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Compensation." The new standard defines a fair value method of accounting for stock options and other equity instruments used for compensation purposes, and requires companies electing to report in accordance with the standard to recognize or disclose such compensation in its financial statements. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. The Company, as permitted, continues to account for such transactions under Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees," but discloses in the notes to the consolidated financial statements pro forma net income and earnings per share as if the Company had adopted the fair value method of accounting (See Note 2).

FINANCIAL INSTRUMENTS

In assessing the fair value of financial instruments at December 27, 1997 and December 26, 1998, the Company has used a variety of methods and assumptions, which were based on estimates of market conditions and risks existing at that time. For certain instruments, including cash and cash equivalents, it was assumed that the carrying amount approximated fair value for the majority of these instruments because of their short maturity. Bank debt obligations are valued at carrying amount due to floating interest rates on such debt. These values merely represent a general approximation of possible value and may never actually be realized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimated fair values of the Company's financial instruments are summarized as follows:

<TABLE>
<CAPTION>

	DECEMBER 27, 1997		DECEMBER 26, 1998	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Cash and cash equivalents	$ 808,000	$ 808,000	$ 546,000	$ 546,000
Revolving line of credit	(8,539,000)	(8,539,000)	(16,029,000)	(16,029,000)
Long-term debt	(10,000,000)	(10,000,000)	(8,674,000)	(8,674,000)

</TABLE>

2. STOCK OPTION PLAN

On July 1, 1992, the Company's Board of Directors adopted the 1992 Stock Option Plan (the "Plan"), pursuant to which 339,474 shares of common stock were reserved for issuance. The Plan provides for the granting of options to directors, officers and certain key employees of the Company. The option price shall not be less than 100% of the fair market value on the date of grant. No options may be granted after 10 years from the date of adoption but all options then outstanding will remain outstanding in accordance with the exercise terms as determined at each grant date. On July 29, 1993, the stockholders of Danskin authorized an increase to the number of options available for distribution to 600,000. Options become exercisable at the discretion of the Compensation Committee of the Board of Directors and the plan provides for discretion on vesting requirements.

Effective October 19, 1994, the Board of Directors of the Company amended the Plan to increase the number of options available for grant from 600,000 to 660,000. On October 27, 1994, the Board of Directors of the Company increased the number of options available for grant from 660,000 to 900,000, which received the approval of stockholders at the 1995 annual meeting.

Effective September 18, 1997, the Executive Committee of the Board of Directors of the Company amended the Company's Stock Option Plan to clarify that the Board of Directors retains the discretion to determine the fair market value of the Common Stock with respect to periods when the Common Stock is not actively traded on NASDAQ or any other national exchange or under circumstances where significant transactions in the Common Stock have occurred outside traditional trading venues.

Effective May 18, 1998, the Executive Committee of the Board of Directors of the Company amended the Stock Option Plan to increase the number of options available for grant thereunder by 2.5 million shares. In addition, the Executive Committee granted options to purchase 1.63 million shares to certain executives and key employees of the Company at an exercise price of $1.625 and provided for grants to new senior level employees of the Company. Such options vest over a

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

four year period from the date of grant.

In October, 1997, a total of 239,943 options were repriced with an exercise price of $.625. All participants granted options prior to repricing, with the exception of certain executives and outside directors, were given the opportunity to exchange previous grants, which were all originally granted at higher exercise prices (ranging from $1.875 to $4.875).

2. STOCK OPTION PLAN (CONTINUED)

The following table summarizes the activity relating to the Plan as of the fiscal year ended December 28, 1996, the fiscal year ended December 27, 1997 and for the fiscal year ended December 26, 1998:

		FISCAL YEAR ENDED DECEMBER 28, 1996		FISCAL YEAR ENDED DECEMBER 27, 1997		FISCAL YEAR ENDED DECEMBER 26, 1998	
	EXERCISE PRICE RANGE	# OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	# OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	# OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of year	$0.625-$7.00	755,328	$3.800	701,918	$3.594	759,034	$2.275
Granted	$0.625-$4.375	168,000	$3.970	369,999	$0.763	2,370,000	$1.514
Canceled	$0.625-$4.00	(111,410)	$6.244	(312,883)	$3.444	(573,376)	$2.414
Exercised	$0.625-$3.00	(110,000)	$2.898	-	-	(92,882)	$0.625
Outstanding, end of year	$0.625-$7.00	701,918	$3.594	759,034	$2.275	2,462,776	$1.414

Options exercisable and shares available for future grant amounted to:

	DECEMBER 27, 1997	DECEMBER 26, 1998
Options exercisable	628,978	271,105
Shares available for grant*	30,966	844,342

The weighted average fair value of total stock options granted during 1998 was $0.56 per share. The fair value of each stock option grant is estimated on the date of grant using a pricing model, which approximates the Black-Scholes pricing model, with the following weighted average assumptions used for grants in fiscal 1998: risk-free interest rate of 5.53%; no expected dividend yield; expected life of 9.8 years; and expected volatility of 29.43%; and for grants in fiscal 1997: risk-free interest rate of 6.13%; no expected dividend yield; expected life of seven years; and expected volatility of 24%. Stock options generally expire 10 years from the grant date or at termination, if earlier. The stock options exercisable at December 26, 1998 have a weighted average exercise price of $1.11 per share.

----

* "Shares available for grant" under the Plan is equal to (a) the total number of options available for grant under the Plan, less (b) the sum of (x) options presently exercisable, (y) non-exercisable options, and (z) previously exercised options.

2. STOCK OPTION PLAN (CONTINUED)

Pursuant to the terms of a Stock Option Agreement between the Company and Ms. Volker dated February 2, 1998, Ms. Volker was granted six options, each

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

representing the right to purchase 425,000 shares of Common Stock. The exercise price of the shares of Common Stock covered by each option is $ 0.65. Each option is generally exercisable until January 31, 2008, unless earlier terminated in accordance with the Stock Option Agreement. Such options were not issued under the Stock Option Plan.

The Company accounts for stock options in accordance with APB No. 25, under which no compensation cost has been recognized for stock option awards. Had compensation cost for the Plan been determined consistent with SFAS No. 123, the Company's pro forma net loss would have been $8.0 million and net loss applicable to Common Stock and net loss per share (basic and diluted) for the fiscal year ended December 26, 1998 would have been $9.1 million and $0.56 per share, respectively; for the fiscal year ended December 27, 1997 the Company's pro forma net income would have been $237,000 and net loss applicable to Common Stock and net loss per share (basic and diluted) would have been $188,000 and $0.02 per share, respectively. For the fiscal year ended December 28, 1996, the Company's pro forma net loss and net loss per share (basic and diluted) would have been $5.5 million and $0.90 per share. Since SFAS No. 123 was not applicable to options granted prior to March 26, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

3. STOCKHOLDER RIGHTS PLAN

The Company adopted a stockholder rights plan on June 5, 1996, for stockholders of record on June 17, 1996, which would become effective in the event of an accumulation of more than 35% of its common stock by an acquirer. A rights agreement was executed on June 5, 1996 between the Company and its Rights Agent, a copy of which was filed as an exhibit to the Company's Report on Form 8-K filed on June 6, 1996. In September 1997, the Board of Directors of the Company, redeemed the Rights issued pursuant to the Rights Agreement for $.01 per right in cash to holders of Common Stock held of record as of the close of business on September 22, 1997.

4. STOCK MARKET LISTING

The Company's Common Stock was traded over-the-counter on the NASDAQ National Market under the symbol "DANS" until August 8, 1996, at which time it was moved to the NASDAQ SmallCap(TM) Market under the same symbol. Effective June 27, 1997, the Company's Common Stock was delisted due to the Company's non-compliance with NASDAQ's minimum capital and surplus requirement. Bid quotations for the Company's Common Stock may be obtained from the "pink sheets" published by the National Quotation Bureau, and the Common Stock is traded in the over-the-counter market.

5. SAVINGS AND PROFIT SHARING PLAN

The Company maintains a savings and profit sharing plan (the "Salaried Savings Plan") for the benefit of salaried employees meeting certain eligibility requirements. Company profit sharing contributions are made at the discretion of the Board of Directors. Effective April 1, 1987, under a 401(k) vehicle, eligible employees may elect to defer a portion of their base salary, up to the maximum allowed, as a deduction for Federal income tax purposes. The Company will match 25% of each participant's investment, up to 6% of the participant's base salary. Total expense for this plan, for the fiscal years ended December 28, 1996, December 27, 1997 and December 26, 1998, was approximately $100,000, $150,000 and $152,000, respectively. The Company also maintains an hourly savings and profit sharing plan (the "Hourly Savings Plan"), for which the Company will match 10% of each participant's investment up to 6% of base salary, with nominal plan expense.

On October 28, 1992, the Company registered a total of 200,000 shares of the Company's common stock and participating interests in the Salaried Savings Plan in conjunction with an amendment to the Salaried Savings Plan to add shares of the Company's common stock as an investment option under such a plan. All shares issued to or purchased from the Salaried Savings Plan are issued or sold at the then current market price.

6. PROPERTY, PLANT AND EQUIPMENT:

<TABLE>
<CAPTION>

Property, plant and equipment consist of:	DECEMBER 27, 1997	DECEMBER 26, 1998
<S>	<C>	<C>
Land	$ 56,000	$ 45,000
Buildings and improvements	2,374,000	1,777,000
Machinery and equipment	6,396,000	6,658,000

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Furniture and fixtures	3,989,000	4,345,000
Leasehold improvements	3,280,000	2,680,000
Construction in progress	167,000	3,075,000
	16,262,000	18,580,000
Accumulated depreciation and amortization	(8,671,000)	(8,807,000)
	$ 7,591,000	$ 9,773,000

7. OTHER ASSETS

Other assets consisted of:	DECEMBER 27, 1997	DECEMBER 26, 1998
Excess of purchase price over fair value of net tangible assets acquired (net of accumulated amortization of $635,000 at December 1997)	$ 205,000	$ -
Deferred financing charges (net of accumulated amortization of $16,000 at December 1997 and $152,000 at December 1998)	611,000	520,000
Unrecognized net pension obligation	2,000	139,000
Notes Receivable - Related Party	95,000	88,000
Notes Receivable - Sea & Ski (non-current portion)	-	400,000
Trademarks (net of accumulated amortization of $412,000 at December 1997 and $447,000 at December 1998)	115,000	80,000
	$ 1,028,000	$ 1,227,000

8. ACCRUED EXPENSES

Accrued expenses consist of:	DECEMBER 27, 1997	DECEMBER 26, 1998
Salaries, wages and other compensation	$ 381,000	$ 695,000
Employee benefits	2,526,000	2,829,000
Accrued cooperative advertising and promotion costs	4,795,000	4,821,000
Accrued rent	362,000	2,051,000
Other accrued expenses	2,334,000	3,296,000
	$ 10,398,000	$13,692,000

</TABLE>

9. NET REVENUES

Net revenues consisted of:

<TABLE>
<CAPTION>

<S>	FISCAL YEAR ENDED DECEMBER 28, 1996 <C>	FISCAL YEAR ENDED DECEMBER 27, 1997 <C>	FISCAL YEAR ENDED DECEMBER 26, 1998 <C>
Net sales	$127,168,000	$120,965,000	$108,024,000
Royalties and licensing fees	977,000	1,021,000	717,000
	$128,145,000	$121,986,000	$108,741,000

</TABLE>

10. NON-RECURRING CHARGES

Non-recurring charges of $300,000 for the fiscal year ended December 27, 1997 consisted of certain executive employee severance costs.

Non-recurring charges were $2.4 million for the fiscal year ended December 26, 1998. These charges consisted of severance costs related to the resignation and termination of former executives of the Company, a provision established for the remaining net lease obligation for the former corporate office at 111 W. 40th Street in New York City and write-offs of non-operating assets, offset by the recognition of the outstanding amount owed the Company for the sale of the Sea & Ski trademark and the gain on the sale of the Reading, PA outlet store. The components of the non-recurring charges for the fiscal year ended December 26, 1998 are as follows:

Severance expense	$1,399,000
Write-off of leasehold improvements (111 W. 40th Street)	416,000

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Write-off of Miami South Beach leasehold improvements	162,000
Write-off of Dance France Goodwill	184,000
Provision for remaining lease obligation for 111 W. 40th Street	1,350,000
Gain on sale of Reading, PA outlet store	(592,000)
Sea & Ski receivable	(500,000)
	$2,419,000

11. BANK FINANCING

<TABLE>
<CAPTION>

	DECEMBER 27, 1997	DECEMBER 26, 1998
<S>	<C>	<C>
Current portion of revolving line of credit	$ 8,539,000	$16,029,000
Long-term debt:		
Term notes	$10,000,000	$ 8,674,000
Less current maturities of long-term debt	333,000	2,000,000
	$ 9,667,000	$ 6,674,000

</TABLE>

Maturities of term notes are as follows for the year ended:

December 1999	$2,000,000
December 2000	2,000,000
December 2001	2,000,000
December 2002	2,674,000
	$8,674,000

11. BANK FINANCING (CONTINUED)

On June 22, 1995, the Company entered into an Amended and Restated Loan and Security Agreement with First Union National Bank of North Carolina ("First Union") (the "Loan and Security Agreement"). The Loan and Security Agreement was amended subsequent to June 22, 1995 to allow for the Company's change in fiscal year end, to permit the establishment of a Canadian subsidiary and related factoring arrangements for purposes of selling direct to customers in Canada, to restate certain financial covenants, to obtain approval for the issuance of a subordinated convertible debenture, the exchange of such debenture for preferred stock and payment of the related dividends, and to increase an annual capital expenditure limitation to $2,000,000.

On March 27, 1997, the Company entered into a Sixth Amendment to the Loan and Security Agreement with First Union (the "Sixth Amendment") which (i) increased the revolving credit "cap" from $25,000,000 to $28,500,000 for the period from March 26, 1997 to March 31, 1998, (ii) altered certain advance rate formulas under the revolving credit facility during a specific period of time, (iii) amended financial covenants with respect to fiscal 1997, (iv) deferred all fiscal 1997 term loan amortization payments until fiscal 1998, (v) required the Company to pay First Union an "additional equity fee" of $3,000,000 in 2002, unless the Company obtained at least $6,000,000 of net equity proceeds prior to August 31, 1997, (vi) provided for an amendment fee of $250,000, and (vii) provided that the Company retain certain business consultants as advisors and outline certain business strategy plans.

On August 28, 1997, First Union, the Company and Danskin Investors, LLC, (the "Investor") entered into a letter agreement which among other things, provided for (i) the purchase by the Investor of certain notes executed by the Company and payable to First Union under the First Union Loan and Security Agreement in the approximate principal amount of $21.256 million (the "Term Loan"), (ii) the restructuring of First Union's revolving credit commitments to the Company (the "Revolving Credit Facility") pending a contemplated refinancing thereof, and (iii) the disposition of the warrants (the "Warrants") issued to First Union in June 1995 in connection with the prior restructuring of the Company's obligations to First Union.

On August 28, 1997, the Company also agreed to the terms of a Memorandum of Understanding with the Investor pursuant to which the Investor would make a capital investment in the Company. In accordance with the terms and conditions

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

of the Memorandum of Understanding, the Investor would (i) contribute the $21.256 million face amount of the Term Loan to the Company and (ii) invest an additional $4 million cash in the Company (collectively, the "Capital Infusion"). In exchange for the Capital Infusion, it was agreed that the Investor would receive (a) $15 million face amount of debt (the "Subordinated Debt"), subordinated only to the Company's obligations to First Union under the Revolving Credit Facility, and (b) convertible preferred stock of the Company having a liquidation preference of $500,000 (the "Investor Preferred Stock"). The Memorandum of Understanding further provided that the Company would repay all principal and accrued but unpaid interest under the Revolving Credit Facility with the proceeds from a new revolving credit facility (the "New Revolving Credit Facility") and term loan (the "New Term Loan") to be provided by a new lender.

Pursuant to certain letter agreements, First Union, subject to the terms and provisions of the First Union Loan and Security Agreement, agreed to make overadvances (collectively, the "Overadvance") available to the Company in varying amounts up to a maximum aggregate principal amount equal to $1,500,000 at any one time outstanding for borrowings on or before August 28, 1997. First Union also agreed to continue to make the Overadvance available to the Company in varying amounts up to a maximum aggregate principal amount not to exceed $2.0 million through October 31, 1997.

On September 22, 1997, the Company consented to the assignment to the Investor of approximately $21.256 million face amount (the "Loan Amount") of the Term Loan. In addition, at ther Term Loan Closing, the Revolving Credit Facility was amended to, among other things, (i) adjust applicable interest rates, (ii) reset the maturity date for such Facility to March 31, 1998 and (iii) eliminate the Additional Equity Fee.

Effective October 8, 1997 (the "Closing Date"), the Company replaced its former financing arrangements with First Union with a new loan and security agreement (the "Loan and Security Agreement") with Century Business Credit Corporation ("CBCC" or the "Lender") which matures on October 8, 2002. Proceeds of the Loan and Security Agreement were used to pay all of the Company's indebtedness to First Union, and to establish working capital lines of credit. On the closing date, the Warrants were surrendered to the Company without the payment of any additional consideration.

Pursuant to and in accordance with its terms, the Loan and Security Agreement provides the Company with a term loan facility in the aggregate principal amount of $10 million (the "Term Loan Facility") and a revolving credit facility, including a provision for the issuance of letters of credit (the "Revolving Credit Facility") generally in an amount not to exceed the lesser of (a) $45 million less the aggregate outstanding principal balance under the Term Loan Facility, or (b) a formula amount based upon the Company's available inventory and accounts receivable levels, minus certain discretionary reserves. The Company's obligations to CBCC under the Loan and Security Agreement are generally secured by a first priority interest in all present and future assets of the Company. The Loan and Security Agreement contains certain affirmative and negative covenants including, maintenance of tangible net worth and a limitation on capital expenditures, respectively. In connection with the closing on the Loan and Security Agreement, the Company paid CBCC a facility fee equal to $300,000.

On the Closing Date, two term loans were advanced to the Company in accordance with the terms of the Term Loan Facility. A term loan in the original principal amount of $5 million was advanced to the Company and is, with respect to principal, payable in thirty (30) consecutive monthly installments commencing on the first day of the first month following the first anniversary of the Closing Date. A second term loan in the original principal amount of $5 million was advanced to the Company and is, with respect to principal, payable in eighteen (18) consecutive monthly installments commencing on the first day of the forty-third (43) month following the Closing Date. At the Closing Date, and after the satisfaction in full of the Company's obligations to First Union, availability under the Revolving Credit Facility was approximately $15 million. Availability at December 26, 1998 was approximately $9.0 million.

Interest on the Company's obligations and under the Loan and Security Agreement generally accrues at a rate per annum equal to the sum of the Prime Rate plus one half of one (1/2%) percent and is payable monthly. Interest may also accrue at a rate per annum equal to the sum of the Eurodollar Rate, as defined in the Loan and Security Agreement, plus two and three quarters percent (2 3/4%).

12. Preferred Stock and Subordinated Convertible Debentures

In accordance with the terms of the Securities Purchase Agreement, upon the Closing Date, the Investor Preferred Stock and the Subordinated Debt were, by their terms, automatically exchanged for (a) $12 million stated value of Series D Redeemable Cumulative Convertible Preferred Stock (the "Series D Stock") of the Company, (b) a seven year warrant to purchase 10 million shares of Common Stock at a per share price of $0.30 (the "Warrants"), and (c) a $3 million aggregate principal amount subordinated note of the Company (the "Remaining Subordinated Debt").

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

The 2,400 shares of Series D Stock are convertible into Common Stock, at the option of the holder and, in certain circumstances, mandatorily, at an initial conversion rate of 16,666.66 shares of Common Stock for each share of the Series D Stock so converted, subject to adjustment in certain circumstances. The terms of the Series D Stock also provide that upon the seventh anniversary of the date of its issuance, the Series D Stock shall be redeemed by the Company for an amount equal to the sum of (x) $5,000 per share (as adjusted for any combinations, divisions or similar recapitalizations affecting the shares of Series D Stock), plus (y) all accrued and unpaid dividends on such shares of

12. PREFERRED STOCK AND SUBORDINATED CONVERTIBLE DEBENTURES (CONTINUED)

Series D Stock to the date of such redemption. Holders of the Series D Stock are entitled to vote, together with the holders of the Common Stock and any other class of series of stock then entitled to vote, as one class on all matters submitted to a vote of stockholders of the Company, in the same manner and with the same effect as the holders of the Common Stock. In any such vote each share of issued and outstanding Series D Stock shall entitle the holder thereof to one vote per share for each share of Common Stock that would be obtained upon conversion of all of the outstanding shares of Series D Stock held by such holder, rounded up to the next one-tenth of a share. Therefore, the exchange of the Series D Stock for the Subordinated Debt was highly dilutive of existing holders of Common Stock. Holders of the Series D Stock are also entitled to designate a majority of the directors to the Board of Directors of the Company. The Series D Stock has an 8% annual dividend rate, payment of which is deferred through December 31, 1999, and a seven year maturity. If, for any fiscal year beginning with the fiscal year ended December 31, 1999, the Company meets certain agreed upon financial targets, all accrued dividends for such fiscal year will be forgiven and the Series D Stock will automatically convert into 40 million shares of Common Stock. The Investor has agreed that, for the period beginning on the date of issuance of the Series D Stock and ending on December 31, 1999, all dividends accrued on the Series D Stock may be paid, at the option of the Company, in cash or in additional Common Stock, legally available for such purpose. The issuance of such Common Stock to the Investor shall, in accordance with the agreement, constitute full payment of such dividend.

On August 6, 1996, the Company issued to a bond fund, certain 10% Cumulative Preferred Stock, having a liquidation preference of $5,000,000, in exchange for an 8% subordinated convertible debenture, which had an aggregate face value of $5,000,000. The Preferred Stock was entitled to vote on an as converted basis and was convertible into 4,403,339 shares of Common Stock at a conversion price of $1.14 per share following the "reset" of such conversion price that took place on August 6, 1997. Holders of the Preferred Stock had the right to vote separately as a class for the election of one Director, and the right to require the Company to redeem their shares for liquidation value in the event of a "change of control", as defined. The director previously elected to the Board of Directors of the Company in this capacity resigned in May 1997. The Company had the right to make quarterly dividend payments by issuing additional shares of common stock in lieu of cash and did so in March 1997 by issuing 56,689 shares of Common Stock at $2.205 per share and in June 1997 by issuing 102,881 shares of Common Stock at $1.21 per share. By agreement of the Company and the holder of the 10% Cumulative Preferred Stock, the issuance in June 1997 of Common Stock in lieu of cash was rescinded. The Company did not take action with respect to the dividend payment which was due on September 1, 1997. In connection with the closing of the Capital Contribution, the holder of the 10% Cumulative Preferred Stock exchanged such preferred stock, and any accrued but unpaid dividends, for 3,436,214 shares of Common Stock and certain other rights, including the right to participate in the purchase of the securities issued to the Investor on the same terms as the Investor. Thereupon, the 10% Cumulative Preferred Stock was canceled and retired.

13. RELATED PARTY ACTIVITIES

In connection with the Company's issuance of the Schupak Warrant, Mr. Schupak executed a seven-year promissory note in favor of the Company in the original principal amount of $80,000. The promissory note bears interest at 6.55% per annum, payable annually.

14. PENSION PLANS

The Company sponsors and administers two defined benefit pension plans, the Danskin Division Hourly Employees' Pension Plan and the Pennaco Hosiery Division Hourly Employees' Pension Plan. Substantially all of the hourly employees of the Danskin division and the Pennaco Hosiery division participate in these plans. Benefits under the plans are based on years of service. The Company's funding policy is to contribute the minimum required contribution for each plan year.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Effective April 15, 1997, the Pennaco Hosiery Division Hourly Employees' Pension Plan was frozen. No person who is not already a Participant can now become a participant and no additional credited service shall be granted to any Participant. The resulting loss from curtailment of this Plan, amounting to $178,000, has been reflected as a component of net pension cost in 1997.

In addition, as of December 27, 1997 and December 26, 1998, the Company recorded a minimum pension liability adjustment to equity of $2,275,000 and $3,046,000 respectively.

In October of 1998, the Company amended the Danskin Division Hourly Employees' Pension Plan to increase the monthly benefit level for 1997 credited service from $7.00 to $8.00 and amended the Pennaco Hosiery Division Hourly Employees' Pension Plan to increase the monthly benefit level for 1997 credited service from $0.00 to $8.00.

14. PENSION PLANS (CONTINUED)

The following table sets forth the plans' funded status at December 27, 1997 and December 26, 1998:

<TABLE>
<CAPTION>

<S>	DECEMBER 27, 1997 DANSKIN <C>	PENNACO <C>
Change in Benefit Obligation		
Benefit Obligation at Beginning of Year	$5,511,000	$7,259,000
Service Cost	98,000	27,000
Interest Cost	396,000	536,000
Amendments	0	0
Acturial Loss	330,000	537,000
Benefits Paid	(530,000)	(572,000)
	$5,805,000	$7,787,000
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	$5,068,000	$5,140,000
Actual Return on Plan Assets	916,000	1,071,000
Employer Contribution	119,000	416,000
Benefits Paid	(530,000)	(572,000)
Fair Value of Plan Assets at End of Year	$5,573,000	$6,055,000
Funded Status	($232,000)	($1,732,000)
Unrecognized Net Transition Asset	(226,000)	0
Unrecognized Prior Service Cost	2,000	0
Unrecognized Net Actuarial Loss	1,256,000	1,245,000
Net amount recognized	$800,000	($487,000)
Amounts recognized in the statement of financial position consist of:		
Prepaid benefit cost	$800,000	$0
Accrued benefit liability	(1,032,000)	(1,732,000)
Intangible Asset	2,000	0
Accumulated other comprehensive loss	1,030,000	1,245,000
	$800,000	($487,000)
Significant Actuarial Assumptions used in the valuation include:		
Discount rate	7.0%	7.0%
Expected long-term rate of return on assets	9.5%	9.5%
Components of Net Periodic Pension Cost		
Service Cost	$97,000	$27,000
Interest Cost	396,000	535,000
Expected Return on Plan Assets	(464,000)	(488,000)
Amortization of Net Transition (Asset) Obligation	(53,000)	24,000
Amortization of Prior Service Cost	0	7,000
Recognized Actuarial Loss	64,000	48,000

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Net Periodic Pension Cost	40,000	153,000
Curtailment Loss	0	178,000
Total Pension Cost	$40,000	$331,000

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 26, 1998	
	Danskin	Pennaco
<S>	<C>	<C>
Change in Benefit Obligation		
Benefit Obligation at Beginning of Year	$5,805,000	$7,787,000
Service Cost	103,000	0
Interest Cost	407,000	511,000
Amendments	15,000	126,000
Acturial Loss	804,000	464,000
Benefits Paid	(537,000)	(568,000)
	$6,597,000	$8,320,000
Change in Plan Assets		
Fair Value of Plan Assets at Beginning of Year	$5,573,000	$6,055,000
Actual Return on Plan Assets	726,000	708,000
Employer Contribution	169,000	344,000
Benefits Paid	(537,000)	(568,000)
Fair Value of Plan Assets at End of Year	$5,931,000	$6,539,000
Funded Status	($666,000)	($1,781,000)
Unrecognized Net Transition Asset	(173,000)	0
Unrecognized Prior Service Cost	15,000	124,000
Unrecognized Net Actuarial Loss	1,727,000	1,492,000
Net amount recognized	$903,000	($165,000)
Amounts recognized in the statement of financial position consist of:		
Prepaid benefit cost	$0	$0
Accrued benefit liability	(666,000)	(1,781,000)
Intangible Asset	15,000	124,000
Accumulated other comprehensive loss	1,554,000	1,492,000
	$903,000	($165,000)
Significant Actuarial Assumptions used in the valuation include:		
Discount rate	6.75%	6.75%
Expected long-term rate of return on assets	8.5%	8.5%
Components of Net Periodic Pension Cost		
Service Cost	$103,000	$0
Interest Cost	407,000	511,000
Expected Return on Plan Assets	(460,000)	(509,000)
Amortization of Net Transition (Asset) Obligation	(53,000)	0
Amortization of Prior Service Cost	1,000	2,000
Recognized Actuarial Loss	68,000	17,000
Net Periodic Pension Cost	66,000	21,000
Curtailment Loss	0	0
Total Pension Cost	$66,000	$21,000

</TABLE>

15. RECAPITALIZATION

In connection with the capital infusion, an investor group in the Company contributed $21,256,000 of the Company's then outstanding term loan, and

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

$4,000,000 in cash in exchange for Series C Preferred Stock and $15,000,000 in Subordinated Debt. Shortly thereafter, upon a refinancing of the Company's then existing revolving credit facility, the $15,000,000 in Subordinated Debt and the Series C Preferred Stock were exchanged for $3,000,000 in Subordinated Debt, $12,000,000 (liquidation value) of Series D Preferred Stock and warrants to purchase 10,000,000 shares of Common Stock at $0.30 per share. This effectively created a non-cash reduction in the Company's debt of $10,256,000. Refer to Note 12 for a discussion of the Subordinated Debt and the Series D Preferred Stock and Note 16 for a discussion of the Warrants.

16. WARRANTS

In accordance with the debt restructuring, the Company granted warrants to the investor group to purchase 10,000,000 shares of the Company's common stock at a price of $0.30 per share. This has been accounted for as an addition to paid-in capital at their fair value of $244,000, as determined by an independent valuation firm, and a reduction of the extraordinary gain described in Note 17. In addition, the Company sold warrants to purchase 5,372,315, 795,900 and 1,591,797 of the Company's common shares at $0.30 per share to three members of the Company's Board of Directors for their fair values aggregating to $144,600. These have been accounted for as additions to paid in capital.

17. EXTRAORDINARY GAIN

As discussed herein, the Company restructured its debt during fiscal 1997. This has been accounted for as a troubled debt restructuring. The write-off of old deferred financing costs and legal and other costs that the Company incurred to effect this debt restructuring have been offset against the extraordinary gain.

The extraordinary gain is comprised of the following:

Gain for forgiveness of debt	$10,256,000
Valuation of warrants given to investor group	(244,000)
Write-off of deferred financing to Investor Group	(2,603,000)
Fees incurred in effecting the debt restructuring	(2,164,000)
Total	$ 5,245,000

18. INCOME TAXES

The provision for income taxes was as follows:

	Fiscal Year Ended December 28, 1996	Fiscal Year Ended December 27, 1997	Fiscal Year Ended December 26, 1998
Federal:			
Current Provision	$ -	$ 50,000	$ -
Deferred Provision	2,536,000	-	-
	2,536,000	50,000	-
State:			
Current Provision	241,000	195,000	190,000
	$ 2,777,000	$ 245,000	$ 190,000

18. INCOME TAXES (CONTINUED)

The following represented the significant items comprising net deferred taxes as of December 27, 1997 and December 26, 1998:

	Fiscal Year Ended December 27, 1997	Fiscal Year Ended December 26, 1998
Future deductible items:		
Accounts receivable allowances	$ 339,000	$ 408,000
Inventory allowance	1,269,000	1,215,000
Non-deductible accruals	2,834,000	2,946,000

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Pension and retirement accruals	718,000	243,000
Net operating loss carryforward	4,514,000	7,144,000
Other	2,468,000	2,906,000
	12,142,000	14,862,000
Future taxable items:		
Prepaid expenses	(307,000)	(301,000)
Property, plant and equipment	(901,000)	240,000
	(1,208,000)	(61,000)
Valuation allowance	(10,934,000)	(14,801,000)
Net Deferred Tax Asset	$ -	$ -

</TABLE>

The difference between income tax expense and the tax computed by applying the statutory income tax rate to income before taxes was as follows:

<TABLE>
<CAPTION>

<S>	Fiscal Year Ended December 28, 1996 <C>	Fiscal Year Ended December 27, 1997 <C>	Fiscal Year Ended December 26, 1998 <C>
Statutory Federal income tax rate	(34%)	34%	(34%)
State Income taxes, net of Federal benefit	7	30	3
Change in valuation allowance	115	47	-
Losses not utilized	36	-	34
Losses utilized	-	(81)	-
Alternative Minimum Tax	-	7	-
Other	1	-	-
Effective income tax rate	125%	37%	3%

</TABLE>

The valuation allowance for the period ended December 1996 increased $4,549,000 to $10,625,000. The valuation allowance for the period ended December 1997 increased $309,000 to $10,934,000. The valuation allowance for the period ended December 1998 increased $3,867,000 to $14,801,000. Valuation allowances have been established since management deems it is more likely than not that certain tax benefits will not be realized.

Deferred income taxes result primarily from net operating losses, certain inventory adjustments not currently deductible for income tax purposes, the use of accelerated depreciation methods for income tax purposes, accruals and reserves not currently deductible, and differences in reporting pension expense for financial statement and income tax purposes.

Net operating losses amounting to approximately $14 million at December 27, 1997 expire during the years 2010 to 2011; Annual usage is subject to the limitations discussed below. An additional net operating loss of approximately $4 million was generated for the fiscal year ended December 26, 1998. This NOL generated from 1998 losses, is not subject to any limitations and will expire in the year 2018.

18. INCOME TAXES (CONTINUED)

During fiscal 1997, the Company underwent a change of ownership within the meaning of Internal Revenue Code Section 382. As a result of this change in ownership, the future utilization of the Company's net operating loss (NOL) carry forward will be limited. Under these rules, the amount of the Company's NOL carry forward that can be used in each subsequent year is limited to an annual amount. This annual limitation is determined by multiplying the value of the Company on the date of the ownership change by the Federal long-term interest rate of approximately 5.5%.

19. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

On November 25, 1996, the Company commenced suit against Herman Gruenwald, former President, Director and Principal shareholder of Siebruck Hosiery Ltd. ("Siebruck") for damages in the amount of $1,450,000 in the Superior Court,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Montreal. The claim relates to unreported sales in excess of $1.5 million arising under a license agreement entered into by and between the Company and Siebruck, which expired on December 31, 1995. Siebruck was placed under the provision of the Canadian Bankruptcy and Insolvency Act. Mr. Gruenwald's statement of defense included a cross-demand against the Company wherein he is claiming damages to his reputation in the amount of Cdn. $3.0 million. A reasonable evaluation of the claim against the Company cannot be made at this time. However, the Company does not presently anticipate that the ultimate resolution of such claim will be material to its financial condition, results of operations, liquidity, or business of the Company.

The Company is a party to a number of other legal proceedings arising in the ordinary course of business. Management believes that the ultimate resolution of these proceedings will not, in the aggregate, have a material adverse impact on the financial condition, results of operations, liquidity or business of the Company.

TAX AUDITS

The Company has been selected for audit by certain state tax authorities, for which resolution cannot be determined at this time. Management believes that any possible ultimate liability resulting from these audits will not materially effect the consolidated financial position or results of operations of the Company.

OPERATING LEASES

The minimum annual rental commitments under non-cancelable operating leases at December 26, 1998 for office space, manufacturing space, equipment and retail stores were approximately as follows:

FISCAL YEARS ENDING:	AMOUNT
December 1999	$5,213,000
December 2000	4,518,000
December 2001	3,576,000
December 2002	2,503,000
December 2003	1,845,000
Thereafter	5,387,000
Total minimum rental payments	$23,042,000

19. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The majority of operating leases are for three-year to five-year terms, generally with options to renew for similar terms, except for the corporate office, certain full price retail stores, and the Pennaco mill and warehouse space, which are for terms of 9 to 15 years. Certain leases require the payment of contingent rent based upon sales and other factors.

Rent expense was approximately as follows:

<TABLE>
<CAPTION>

<S>	Fiscal Year Ended December 28, 1996 <C>	Fiscal Year Ended December 27, 1997 <C>	Fiscal Year Ended December 26, 1998 <C>
Minimum rent	$6,637,000	$6,150,000	$5,802,000
Contingent rent	829,000	892,000	1,054,000
Rent expense	$7,466,000	$7,042,000	$6,856,000

</TABLE>

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements that provide for base and incentive compensation, and that are terminable for "cause", as defined, or resignation following a "change of control", as defined. The Company has total minimum commitment pursuant to the term of these agreements for fiscal 1999 and future years totaling $887,500, unless employment is terminated in which case total pay will generally continue for 12 to 24 months following such termination.

CONCENTRATION OF CREDIT RISK

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of accounts receivable from department stores, sporting goods stores and other specialty retailers as well as commercial letters of credit. Although the concentration of risk is limited due to the large number of customers included within the Company's customer base, various of the Company's retail customers have experienced financial difficulties in recent years. These financial difficulties have increased the risk of extending credit to such customers. The Company subjects all customers to credit evaluation prior to acceptance and maintains ongoing reviews based on established policies.

MINIMUM ROYALTY COMMITMENTS

The Company generally enters into licensing arrangements, as a licensee, that provide for minimum annual royalty payments and additional royalty payments based on a percentage of net revenues. The Company also licenses its Danskin(TM) and Round-the-Clock(TM) names to selected companies. As of December 26, 1998, the Company was committed to certain minimum licensing arrangements as follows:

Fiscal Years Ending:	ROYALTY EXPENSE	ROYALTY INCOME
December 1999	500,000	242,000
December 2000	1,075,000	165,000
December 2001	1,970,000	120,000
December 2002	2,575,000	120,000
	$6,120,000	$647,000

20. STOCK ISSUANCES

In furtherance of the terms of the Securities Purchase Agreement, on April 28, 1998, the Company filed a Registration Statement on Form S-1 in connection with the registration under the Securities Act of 1933, as amended, of (i) an aggregate of 10,838,124 rights to purchase shares of Common Stock, and (ii) 2,131,889 shares of Common Stock issuable upon exercise of such rights. The Board of Directors established May 8, 1998 as the date of record for holders of Common Stock to participate in such offering. Holders of Common Stock held of record as of the close of business on the record date had the right to purchase, pro rata, 2,131,889 shares of Common Stock at a per share price of $0.30 (the "Rights Offering"). The Rights Offering commenced on July 6, 1998 and expired on August 6, 1998. Approximately 8.4 million rights were subscribed for and approximately1.6 million shares were issued in respect of such rights. In accordance with the terms of the Securities Purchase Agreement, the Investor purchased the rights not subscribed for on primary subscription, totaling 488,289 shares of Common Stock, at $0.30 per share. The Company realized aggregate gross proceeds of approximately $640,000.

In addition, on May 27, 1998, the Company, the Investor, and a bond fund purchased, pro rata in proportion to their respective holdings of Remaining Subordinated Notes, 7,864,336 shares of Common Stock, in exchange for approximately $2.4 million aggregate principal amount of Remaining Subordinated Notes (the "Stock Sale"). As a result of the Rights Offering and the Stock Sale, the Company issued 10,000,000 shares of Common Stock at $0.30 per share as contemplated by the Securities Purchase Agreement. In addition, the outstanding principal amount of Remaining Subordinated Notes was satisfied in full.

21. SEGMENT INFORMATION

The Company has adopted SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information."

The Company is organized based on the products that it offers. The Company currently operates under two operating segments: Danskin, which designs, manufactures, markets and sells activewear, dance wear, bodywear, tights and exercise apparel through wholesale channels to retailers and through the Company's outlet and retail stores; and Pennaco, which designs, manufactures and markets hosiery under the brand names Ralph Lauren(R), Round-The-Clock(R), Givenchy(R), and under private labels for major retailers.

The Company evaluates performance based on profit or loss from operations before extraordinary items, interest expense and income taxes. The Company allocates corporate administrative expenses to each segment. The Danskin Division was allocated $3.9 million in fiscal 1998, $2.4 million in fiscal 1997 and $2.5 million in fiscal 1996. Pennaco was allocated $3.3 million in fiscal 1998, $2.0 million in fiscal 1997 and $2.1 million in fiscal 1996. Capital expenditures for corporate administration are included with the Danskin division. In addition, the Company does not allocate interest expense to the divisions.

Financial information by segment for the fiscal years ended December 26, 1998,

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

December 27, 1997 and December 26, 1996 is summarized below.

($000 omitted)

	Danskin	Pennaco	Total
1998			
Net Revenues	$73,468	$35,273	$108,741
Operating (Loss)	(2,671)	(1,547)	(4,218)
Identifiable assets at year-end	41,549	16,157	57,706
Depreciation and amortization	1,108	485	1,593
Capital expenditures	3,450	1,223	4,673
1997			
Net Revenues	$81,158	$40,828	$121,986
Operating (Loss)	(13)	(297)	(310)
Identifiable assets at year-end	38,509	16,493	55,002
Depreciation and amortization	1,345	751	2,096
Capital expenditures	236	5	241
1996			
Net Revenues	$80,608	$47,537	$128,145
Operating Income (Loss)	3,172	(663)	2,509
Identifiable assets at year-end	46,731	20,209	66,940
Depreciation and amortization	1,460	752	2,212
Capital expenditures	641	97	738

Reconciliation of depreciation and amortization to consolidated totals is as follows:

	1996	1997	1998
Total segment depreciation and amortization	$2,212	$2,096	$1,593
Amortization of deferred financing costs	404	380	134
Consolidated depreciation and amortization	$2,616	$2,476	$1,727

22. SUBSEQUENT EVENTS

The Investor has agreed that, for the period beginning on the date of issuance of the Series D Stock (See Note 12) and ending on December 31, 1999, all dividends accrued on the Series D Stock may be paid, at the option of the Company, in cash or in additional Common Stock, legally available for such purpose. The issuance of such Common Stock to the Investor shall, in accordance with the agreement, constitute full payment of such dividend.

SUPPLEMENTAL FINANCIAL INFORMATION
SELECTED QUARTERLY FINANCIAL INFORMATION

<TABLE>
<CAPTION>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

(UNAUDITED)	FISCAL QUARTERS ENDED			
	MARCH	JUNE	SEPTEMBER	DECEMBER
Fiscal year ended December 26, 1998:				
Net revenues	$28,251,000	$26,444,000	$27,959,000	$26,087,000
Gross profit	$10,473,000	$10,275,000	$10,813,000	$8,752,000
Net (loss)	($1,757,000)	($319,000)	($1,862,000)	($2,983,000)
Net (loss) applicable to Common Stock	($2,062,000)	($586,000)	($2,133,000)	($3,254,000)
Basic and diluted net (loss) per share	($0.20)	($0.04)	($0.11)	($0.16)
Weighted average common shares and share equivalents outstanding	10,529,000	13,538,000	19,689,000	20,917,000
Fiscal year ended December 27, 1997:				
Net revenues	$30,785,000	$29,469,000	$32,699,000	$29,033,000
Gross profit	$10,830,000	$9,308,000	$11,631,000	$8,395,000
Net (loss) income	($844,000)	($1,587,000)	$4,931,000	($2,088,000)
Net (loss) income applicable to Common Stock	($969,000)	($1,712,000)	$4,819,000	($2,151,000)
Basic and diluted net (loss) earnings per share	($0.15)	($0.25)	$0.50	($0.20)
Weighted average common shares and share equivalents outstanding	6,570,000	6,812,000	9,677,000	10,516,000

</TABLE>

DANSKIN, INC. AND SUBSIDIARIES
SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

SCHEDULE II

COLUMN A	COLUMN B	COLUMN C-ADDITIONS		COLUMN D	COLUMN E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS (a)	BALANCE AT END OF PERIOD
Fiscal year Ended December 26, 1998:					
Allowance for doubtful accounts receivable	$848,000	$327,000	$--	$154,000	$1,021,000
Fiscal year Ended December 27, 1997:					
Allowance for doubtful accounts receivable	$938,000	$49,000	$--	$139,000	$848,000
Fiscal year Ended December 28, 1996:					
Allowance for doubtful accounts receivable	$1,631,000	($43,000)	$--	$650,000	$938,000

(a) Uncollectible accounts receivable written off, net of recoveries

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exhibit 21.1

Subsidiaries of the Registrant

Danpen, Inc.

Danskin Sports, Inc.

Danskin Canada, Inc.

Danskin Assemblies De Mexico S.A. de C.V.

Custom Collection, Inc.

International Activewear

Pennaco, Inc.

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report dated March 5, 1999 included in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 33-89692, 33-53852 and 33-67644.

ARTHUR ANDERSEN LLP

New York, New York
March 26, 1999

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

Exhibit 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statement Numbers 33-89692, 33-53852 and 33-67644 of Danskin, Inc. and Subsidiaries on Form S-8 of our report dated March 14, 1997 (Except for Note 1 - Loss per Common Share for which the date is March 6, 1998) appearing in and incorporated by reference in this Annual Report on Form 10-K of Danskin, Inc. and Subsidiaries for the year ended December 26, 1998.

/s/ DELOITTE & TOUCHE LLP
New York, New York

March 24, 1999

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document

<TABLE> <S> <C>

<ARTICLE> 5
<CIK> 0000889299
<NAME> Danskin, Inc.
<CURRENCY> US $

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-26-1998
<PERIOD-START>	DEC-28-1997
<PERIOD-END>	DEC-26-1998
<EXCHANGE-RATE>	1.00
<CASH>	546,000
<SECURITIES>	0
<RECEIVABLES>	13,518,000
<ALLOWANCES>	1,021,000
<INVENTORY>	30,386,000
<CURRENT-ASSETS>	46,706,000
<PP&E>	9,773,000
<DEPRECIATION>	8,807,000
<TOTAL-ASSETS>	57,706,000
<CURRENT-LIABILITIES>	40,161,000
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	11,294,000
<COMMON>	209,000
<OTHER-SE>	(4,109,000)
<TOTAL-LIABILITY-AND-EQUITY>	57,706,000
<SALES>	108,741,000
<TOTAL-REVENUES>	108,741,000
<CGS>	68,428,000
<TOTAL-COSTS>	68,428,000
<OTHER-EXPENSES>	44,204,000
<LOSS-PROVISION>	327,000
<INTEREST-EXPENSE>	2,513,000
<INCOME-PRETAX>	(7,845,000)
<INCOME-TAX>	190,000
<INCOME-CONTINUING>	(8,035,000)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(8,035,000)
<EPS-PRIMARY>	(0.50)
<EPS-DILUTED>	(0.50)

</TABLE>

Copyright © 2012 www.secdatabase.com. All Rights Reserved.
Please Consider the Environment Before Printing This Document