

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **1997-02-20** | Period of Report: **1997-01-24**
SEC Accession No. **0000950136-97-000154**

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FILER

DONNKENNY INC

CIK: **29693** | IRS No.: **510228891** | State of Incorporation: **DE** | Fiscal Year End: **1204**
Type: **8-K** | Act: **34** | File No.: **000-21940** | Film No.: **97539900**
SIC: **2330** Women's, misses', and juniors outerwear

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of Earliest Event Reported): January 24, 1997

DONNKENNY, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State or Other Jurisdiction of Incorporation)

0-21940

51-0228891

(Commission File Number)

(I.R.S. Employer Identification No.)

1411 BROADWAY, NEW YORK, NEW YORK

10018

(Address of Principal Executive Offices)

(Zip Code)

(212) 730-7770

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)
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Item 5. Other Events

On January 24, 1997, Donnkenny Apparel, Inc., a wholly-owned subsidiary of Donnkenny, Inc. (the "Registrant"), entered into a Rescission Agreement with Mel Weiss, pursuant to which the sale by Mel Weiss (the "Seller") of all of the outstanding capital stock of Fashion Avenue Knits, Inc. and certain related entities (the "Fashion Avenue Entities") was rescinded. In connection with such rescission, Donnkenny Apparel, Inc., ("Donnkenny Apparel") agreed to waive the repayment of approximately \$400,000 of inter-company loans made by Donnkenny Apparel to the Fashion Avenue Entities and to pay the Seller \$50,000 as reimbursement for legal and other fees and expenses. In addition, the Registrant issued to Seller 25,000 shares of its Common Stock and a Warrant to purchase 75,000 shares of its Common Stock, which is exercisable until July 23, 2004 and which has an exercise price equal to \$5.00 per share.

On January 31, 1997, the Registrant concluded arrangements with its senior lenders to extend the term of the parties' previously-announced waiver agreement from February 27, 1997 until April 30, 1997. The new arrangements, which continue a waiver of certain defaults under the Registrant's Credit Agreement, also increase the Registrant's credit availability to \$70 million and continues a term loan of \$17.5 million.

Item 7. Financial Statements and Exhibits

(c) Exhibits.

99.1 Seventh Amendment, Waiver and Release Agreement, dated as of January 31, 1997, to the Credit Agreement, dated as of June 5, 1995, among Donnkenny Apparel, Inc., Beldoch Industries Corporation, the

Guarantors named therein, the lenders named therein and The Chase Manhattan Bank (formerly known as Chemical Bank) as agent for the Lenders.

99.2 Third Amendment Agreement, dated as of January 31, 1997, to the Security Agreement, dated as of June 5, 1995, between Donnkenny Apparel, Inc., Beldoch Industries Corporation, MegaKnits, Inc., Fashion Avenue Knits Inc., The Sweater Company, Inc. and The Chase Manhattan Bank (formerly known as Chemical Bank) as agent for the lenders named in the Credit Agreement of even date therewith.

SIGNATURES

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

DONNKENNY, INC.
(Registrant)

DATE: February 20, 1997

By: /s/ Harvey Horowitz

Name: Harvey Horowitz
Title: Vice President

EXHIBIT INDEX

Exhibit No. -----	Description -----	Page No. -----
99.1	Seventh Amendment, Waiver and Release Agreement, dated as of January 31, 1997, to the Credit Agreement, dated as of June 5, 1995, among Donnkenny Apparel, Inc., Beldoch Industries Corporation, the Guarantors named therein, the lenders named therein and The Chase Manhattan Bank (formerly known as Chemical Bank) as agent for the Lenders.	
99.2	Third Amendment Agreement, dated as of January 31, 1997, to the Security Agreement, dated as of June 5, 1995, between Donnkenny Apparel, Inc., Beldoch Industries Corporation, MegaKnits, Inc., Fashion Avenue Knits Inc., The Sweater Company, Inc. and The Chase Manhattan Bank (formerly known as Chemical Bank) as agent for the lenders named in the Credit Agreement of even date therewith.	

SEVENTH AMENDMENT, WAIVER AND RELEASE AGREEMENT

SEVENTH AMENDMENT, WAIVER AND RELEASE AGREEMENT, dated as of January 31, 1997, to the Credit Agreement, dated as of June 5, 1995 (as the same has heretofore or may be hereafter amended, supplemented or modified from time to time in accordance with its terms, the "Credit Agreement"), among Donnkenny Apparel, Inc., a Delaware corporation, and Beldoch Industries Corporation, a Delaware corporation (collectively, the "Borrowers"), the Guarantors named therein and signatories thereto, the lenders named in Schedules 2.01(a) and (b) of the Credit Agreement (collectively, the "Lenders"), and The Chase Manhattan Bank (formerly known as Chemical Bank) as agent for the Lenders (in such capacity, the "Agent"). Capitalized terms used herein but not otherwise defined herein shall have the meanings attributed thereto in the Credit Agreement.

WHEREAS, Borrowers have informed the Agent of the existence of certain Events of Default under the Credit Agreement; and

WHEREAS, Lenders have agreed to waive such Events of Default for a limited period subject to Borrowers' agreement to modify the Credit Agreement in certain respects.

NOW THEREFORE, for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and subject to the fulfillment of the conditions set forth below, the parties hereto agree as follows:

SECTION 1. WAIVERS AND RELEASES UNDER CREDIT AGREEMENT

1.1 The Lenders hereby waive, solely for the period through April 30, 1997 ("Waiver Period") the Defaults or Events of Default as described in the letter from the Borrowers to the Lenders dated as of November 20, 1996, a copy of which is annexed to the Fifth Amendment and Waiver Agreement dated as of November 20, 1996, and waive solely for the period ending with the delivery of the December 31, 1996 audited financial statements the provisions of Section 7.09 of the Credit Agreement with respect to the Leverage Ratio for the fiscal quarter period ended September 30, 1996.

1.2 The Lenders hereby waive the applicable provisions of the Credit Agreement and Security Documents to permit DKA to consummate the rescission agreement dated as of January 24, 1997 between DKA and Mel Weiss and, in that connection, the Lenders hereby release each of Fashion Avenue Knits Inc. and The Sweater Company, Inc. as a Guarantor under the Credit Agreement and as a Grantor under each of the Security Documents to which each is a party.

1

1.3 Except for the specific waivers set forth in Section 1.1 and then only for the Waiver Period or other period specified therein and the specific waivers and releases set forth in Section 1.2, nothing herein shall be deemed to be a waiver or release of any covenant or agreement contained in the Credit Agreement and Security Documents, and the Borrowers hereby agree that all of the covenants and agreements contained in the Credit Agreement are ratified and confirmed in all respects.

SECTION 2. AMENDMENTS TO THE CREDIT AGREEMENT

2.1 The reference in the preamble to the Credit Agreement to Revolving Credit Loans and Letters of Credit not in excess of "\$75,000,000" shall be amended to read "\$70,000,000."

2.2 The defined terms "Debt Sublimit," "Letter of Credit Usage," "Net Amount of Receivables" and "Waiver Period" contained in Section 1.01 of the Credit Agreement are amended to read as follows:

"'Debt Sublimit' shall mean \$45,000,000 for the period January 31, 1997 and thereafter.

'Letter of Credit Usage' shall mean at any time, (i) the aggregate undrawn amount of all outstanding Letters of Credit (including any steamship guaranties) at such time, together with letters of credit issued by Chemical Bank on behalf of Beldoch Industries Corporation outstanding on the Closing Date and indemnities, if any, issued by the Agent to a financial institution which has opened letters of credit relating to the assets being acquired pursuant to the Asset Purchase Agreement plus (ii) the

unreimbursed drawings at such time under all such Letters of Credit; provided, however, that during the Waiver Period the Letter of Credit Usage shall not exceed \$25,000,000 at any one time outstanding and Letters of Credit may only be opened to support international purchases.

'Net Amount of Receivables' shall mean and include at any time, without duplication, the gross amount of accounts receivable arising in the ordinary course of business from the sale of goods or the rendering of services at such time which are eligible (as hereafter described) less (i) sales, excise or similar taxes, (ii) returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed and (iii) reserves, all computed in accordance with GAAP. For purposes hereof with respect to accounts receivable, eligibility shall be determined by the Agent in its sole discretion, but in no event shall a receivable be deemed eligible unless the payment due on the receivable is not more than 60 days past the invoice date, the receivable does not arise out of a

bill and hold, consignment or progress billing arrangement or is not subject to any setoff, contra, net-out contract, offset, deduction, dispute, credit or counterclaim, or the customer is not a government entity, Affiliate of the Borrowers or foreign entity.

'Waiver Period' shall mean the period from January 31, 1997 to April 30, 1997 with respect to existing Events of Default as waived for such period pursuant to Seventh Amendment, Waiver and Release Agreement dated as of January 31, 1997, as the same may be extended with the consent of the Required Lenders."

2.3 Subparagraph (b) of Section 2.01 of the Credit Agreement is amended in its entirety to read as follows:

"(b) Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Lender, severally and not jointly, agrees to make Revolving Credit Loans to, and through the Agent open Letters of Credit for the benefit of, the Borrowers, at any time and from time to time from the date hereof to

the Revolving Credit Termination Date, in an aggregate principal amount at any time outstanding not to exceed the amount of such Lender's Revolving Credit Commitment set forth opposite its name in Schedule 2.01(b) annexed hereto, as such Revolving Credit Commitment may be reduced from time to time in accordance with the provisions of this Agreement. Notwithstanding the foregoing, the aggregate principal amount of Revolving Credit Loans outstanding at any time to the Borrowers shall not exceed the lesser of (A) the Total Revolving Credit Commitment (as such amount may be reduced pursuant to Section 2.07 hereof) minus the Letter of Credit Usage at such time, (B) an amount equal to the sum of (i) up to eighty-five percent (85%) of the eligible Net Amount of Receivables, plus (ii) \$9,000,000 (this clause (B) referred to herein as the "Borrowing Base") and (C) the Debt Sublimit. The Borrowing Base will be computed daily and a compliance certificate from a Responsible Officer of the Borrowers presenting its computation will be delivered to the Agent in accordance with Section 6.05 hereof."

2.4 Subsection (d) of Section 2.05 of the Credit Agreement is amended in its entirety to read as follows:

"(d) Notwithstanding subsections (a) and (b) hereof, during the Waiver Period, the Borrower shall not request Eurodollar Loans and each Prime Rate Loan which is a Term Loan or Revolving Credit Loan, shall bear interest at a rate per annum equal to the Prime Rate plus 1%."

3

2.5 Section 2.06 of the Credit Agreement is amended by adding thereto a new subsection (c) to read as follows:

"(c) The Borrowers shall pay to the Agent for its own account a collateral monitoring fee in the amount of \$4,500 per month payable on the first Business Day of each month."

2.6 Section 6.05(i) of the Credit Agreement is amended in its entirety to read as follows:

"The Borrowers shall deliver or cause to be delivered to the Agent the following information, documents or instruments no later than the dates indicated without the benefit of any grace period provided for in subparagraph (d) of Article VIII hereof:

By February 10, 1997, monthly projected balance sheets, profit and loss statements and cash flows for the 1997 Fiscal Year, and showing projected Indebtedness, including, without limitation, Letters of Credit, outstanding.

By February 4, 1997, amendments to the Security Agreements, together with appropriate UCC-1 amendments, in form and substance satisfactory to the Agent, such that the Agent for the ratable benefit of the Lenders and itself have perfected security interests in all Grantors' receivables whether domestic or foreign and in all imported inventory whether or not financed by Letters of Credit.

By March 31, 1997, the audited (without qualification) restated financial statements for the 1994 and 1995 Fiscal Years.

By April 15, 1997, real property mortgages, title policies and opinions of counsel, in form and substance satisfactory to the Agent, covering all real property owned by any of the Grantors.

Weekly, no later than the second Business Day of each week, an aging schedule of Receivables and a certificate executed by the Financial Officer of the Borrowers calculating the Borrowing Base and demonstrating compliance with the Availability requirement.

In addition to the foregoing, such other information (including, without limitation, tax returns) regarding the operations, business affairs and financial condition of the Parent and its subsidiaries as the Agent or any Lender may reasonably request.

2.7 Section 7.07 of the Credit Agreement is hereby amended in its entirety to read as follows:

"SECTION 7.07. Capital Expenditures. Permit the aggregate

amount of payments made for capital expenditures, including Capitalized Lease Obligations and Indebtedness secured by Liens permitted under Section 7.01(e) hereof, in any Fiscal Year to exceed \$2,000,000 for the Parent and its subsidiaries on a Consolidated basis."

SECTION 3. CONDITIONS PRECEDENT

Upon the execution and delivery of counterparts of this Amendment, Waiver and Release Agreement (the "Agreement") by the parties listed below and the fulfillment of the following conditions, this Agreement shall be deemed to have become effective as of the date hereof:

3.1 All representations and warranties contained in this Agreement, the Credit Agreement or otherwise made in writing to the Agent or any Lender in connection herewith shall be true and correct in all material respects after giving effect to the waivers under this Agreement.

3.2 No unwaived event shall have occurred and be continuing which constitutes a Default or an Event of Default.

3.3 The Agent shall have received an amendment fee for the ratable benefit of the Lenders in the amount of \$150,000 (of which \$75,000 shall be credited toward any amendment fee in connection with any further extension of the Waiver Period, any such extension and the amount of such fee to be in the sole discretion of the Lenders).

3.4 The Agent shall have received an indemnity agreement executed by Rosenthal & Rosenthal, Inc. in form and substance satisfactory to it with respect to outstanding Letters of Credit opened for Fashion Avenue Knits Inc. or The Sweater Company, Inc.

SECTION 4. MISCELLANEOUS

4.1 Each of the Borrowers reaffirms and restates the representations and warranties set forth in the Credit Agreement, as applicable, and all such representations and warranties shall be true and correct on the date hereof with the same force and effect as if made on such date after giving effect to the waivers under this Agreement.

4.2 Except as herein expressly amended, the Credit Agreement and the other documents executed and delivered in connection therewith are each ratified and confirmed in all respects and shall remain in full force and effect in accordance with their respective terms.

4.3 Except as specifically set forth herein, nothing herein contained shall constitute a waiver or be deemed to be a waiver, of any existing Defaults or Events of Default, and the Lenders and Agent reserve all rights and remedies granted to them by the Credit Agreement, the other documents executed and delivered in connection therewith, by law and otherwise.

4.4 This Agreement may be executed by the parties hereto individually or in combination, in one or more counterparts, each of which shall be an original and all of which shall constitute one and the same agreement. A facsimile signature page shall constitute an original for the purposes hereof.

4.5 During the Waiver Period, Borrowers, in addition to paying the reasonable fees and expenses of counsel to the Agent, shall also pay the reasonable fees and expenses of counsel retained by any of the Lenders.

4.6 THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

DONNKENNY APPAREL, INC.

By:

Name:

Title:

BELDOCH INDUSTRIES CORPORATION

By:

Name:

Title:

CHRISTIANSBURG GARMENT
COMPANY INCORPORATED

By: _____

Name:
Title:

MEGAKNITS, INC.

By: _____

Name:
Title:

THE CHASE MANHATTAN BANK
(formerly known as Chemical Bank),
as Agent and Lender

By: _____

Name:
Title:

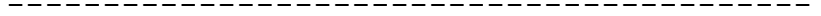
THE BANK OF NEW YORK

By: _____

Name:
Title:

FLEET BANK, N.A.

By:



Name:

Title:

THIRD AMENDMENT AGREEMENT

THIRD AMENDMENT AGREEMENT, dated as of January 31, 1997, to the Security Agreement, dated as of June 5, 1995 (as the same has been heretofore, and may be further, amended, supplemented or modified from time to time in accordance with its terms, the "Security Agreement"), between Donnkenny Apparel, Inc., a Delaware corporation ("DKA"), Beldoch Industries Corporation, a Delaware corporation (collectively with DKA, the "Borrowers"), MegaKnits, Inc., a New York corporation, Fashion Avenue Knits Inc., a New York corporation ("Fashion"), The Sweater Company, Inc., a New York corporation ("Sweater Company") and The Chase Manhattan Bank (formerly known as Chemical Bank) as agent (in such capacity, the "Agent") for the lenders (the "Lenders") named in Schedules 2.01(a) and (b) of the Credit Agreement dated as of June 5, 1995 (as amended, modified or supplemented from time to time in accordance with its terms, the "Credit Agreement") among the Borrowers, the guarantors named therein and signatory thereto, the Lenders and the Agent. Capitalized terms used herein but not otherwise defined herein shall have the meanings attributed thereto in the Security Agreement or the Credit Agreement.

WHEREAS, DKA desires to dispose of Fashion and Sweater Company pursuant to the Rescission Agreement dated as of January 24, 1997 between DKA and Mel Weiss; and

WHEREAS, the parties hereto desire to amend certain provisions of the Security Agreement to reflect said Rescission Agreement and to provide for additional collateral.

NOW THEREFORE, for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and subject to the fulfillment of the conditions set forth below, the parties hereto agree as follows:

SECTION 1. AMENDMENTS TO THE SECURITY AGREEMENT

1.1 Each of Fashion and Sweater Company shall be deleted from the Security Agreement as a "Grantor" as such term is defined in the Security Agreement and shall no longer be bound by the terms and provisions of the Security Agreement.

1.2 Section 1(a) of the Security Agreement is hereby amended by deleting from the sixth and seventh lines thereof the phrase "located in the United States, Canada, Mexico and Puerto Rico."

1.3 Section 1(b) of the Security Agreement is hereby amended and restated in its entirety as follows:

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"(b) "Collateral" shall mean all (i) Accounts Receivable, (ii) Documents, (iii) Equipment, (iv) General Intangibles, (v) Inventory and (vi) Proceeds."

1.4 Section 1(f) of the Security Agreement is hereby amended by deleting the proviso at the end thereof and by deleting the phrase "in each instance which is financed through the issuance of Letters of Credit" immediately preceding such proviso and substituting therefor the phrase "constituting inventory which is imported into the United States."

1.5 Section 1 of the Security Agreement is hereby amended by deleting clause (h) thereof.

1.6 Schedule I to the Security Agreement is hereby amended by deleting all locations for Fashion and Sweater Company.

SECTION 2. MISCELLANEOUS

2.1 Each of the Grantors reaffirms and restates the representations and warranties set forth in the Security Agreement, and all such representations and warranties, after giving effect to the amendments set forth herein, shall be true and correct on the date hereof with the same force and effect as if made on such date.

2.2 Except as herein expressly amended, the Security Agreement and the other documents executed and delivered in connection therewith are each ratified and confirmed in all respects and shall remain in full force and effect in accordance with their respective terms.

2.3 From and after the date hereof, (a) all references in the

Security Agreement to "this Agreement", "hereof", "herein", or similar terms and (b) all references to the Security Agreement in each agreement, instrument and other documents executed or delivered in connection with the Security Agreement, shall mean and refer to the Security Agreement, as amended by this Amendment Agreement.

2.4 This Amendment Agreement may be executed by the parties hereto individually or in combination, in one or more counterparts, each of which shall be an original and all of which shall constitute one and the same agreement. A facsimile signature page shall constitute an original for the purposes hereof.

2.5 THIS AMENDMENT AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

DONNKENNY APPAREL, INC.

By: _____

Name:
Title:

BELDOCH INDUSTRIES CORPORATION

By: _____

Name:
Title:

By:

Name:

Title:

THE CHASE MANHATTAN BANK
(formerly known as Chemical Bank),
as Agent and Lender

By:

Name:

Title: