

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 27, 2003**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-15583**

**DELTA APPAREL, INC**

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

**GEORGIA**

**58-2508794**

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**(State or other jurisdiction of  
Incorporation or organization)**

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

**2750 Premiere Parkway, Suite 100  
Duluth, Georgia 30097**

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**(Address of principal executive offices) (Zip Code)**

**(678) 775-6900**

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**(Registrant's telephone number, including area code)**

**(Not Applicable)**

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**(Former name, former address and former fiscal year, if changed since last report.)**

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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 23, 2003, there were outstanding 4,069,502 shares of the registrant's common stock, par value of \$0.01, which is the only class of the outstanding common or voting stock of the registrant.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## DELTA APPAREL, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets  
(in thousands, except shares and per share amounts)

	(Unaudited) September 27, 2003	June 28, 2003
<b>Assets</b>		
Current assets:		
Cash	\$ 189	\$ 203
Accounts receivable, net	17,370	22,196
Inventories	50,210	47,174
Prepaid expenses and other current assets	1,484	1,689
Deferred income taxes	505	620
Income taxes receivable	416	434
	<u>          </u>	<u>          </u>
Total current assets	70,174	72,316
Property, plant and equipment, net	21,461	22,077
Other assets	39	54
	<u>          </u>	<u>          </u>
Total assets	\$91,674	\$94,447
	<u>          </u>	<u>          </u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$17,112	\$16,033
Current portion of long-term debt	2,000	2,000
	<u>          </u>	<u>          </u>
Total current liabilities	19,112	18,033
Long-term debt	3,321	7,865
Deferred income taxes	1,224	1,162
Other liabilities	1,567	1,418
	<u>          </u>	<u>          </u>
Total liabilities	25,224	28,478
Stockholders' equity:		
Preferred stock—2,000,000 shares authorized; none issued and outstanding	—	—
Common stock—par value \$.01 a share, 7,500,000 shares authorized, 4,823,486 shares issued, and 4,060,502 and 4,037,080 shares outstanding as of September 27, 2003 and June 28, 2003, respectively	48	48
Additional paid-in capital	53,889	53,889
Retained earnings	21,221	21,007
Treasury stock—762,984 and 786,406 shares as of September 27, 2003 and June 28, 2003, respectively	(8,708)	(8,975)
	<u>          </u>	<u>          </u>
Total stockholders' equity	66,450	65,969
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$91,674	\$94,447
	<u>          </u>	<u>          </u>

See accompanying notes to condensed consolidated financial statements.

**DELTA APPAREL, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Income  
(in thousands, except per share amounts)  
(Unaudited)**

	Three Months Ended	
	September 27, 2003	September 28, 2002
Net sales	\$30,802	\$28,883
Cost of goods sold	26,720	22,879
Gross profit	4,082	6,004
Selling, general and administrative expenses	3,219	2,973
Provision for bad debts	(160)	(138)
Other (income) expense	(81)	108
Operating income	1,104	3,061
Interest expense, net	154	148
Income before income taxes	950	2,913
Income tax expense	361	1,122
Net income	\$ 589	\$ 1,791
Earnings per share		
Basic	\$ 0.15	\$ 0.44
Diluted	\$ 0.14	\$ 0.43
Weighted average number of shares outstanding	4,044	4,053
Dilutive effect of stock options	124	156
Weighted average number of shares assuming dilution	4,168	4,209

See accompanying notes to condensed consolidated financial statements

**DELTA APPAREL, INC. AND SUBSIDIARIES**

**Condensed Consolidated Statements of Cash Flows**  
**(in thousands)**  
**(Unaudited)**

	Three Months Ended	
	September 27, 2003	September 28, 2002
Operating activities:		
Net income	\$ 589	\$ 1,791
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,110	1,659
Deferred income taxes	176	50
Changes in operating assets and liabilities:		
Accounts receivable	4,826	8,326
Inventories	(3,036)	(12,912)
Prepaid expenses and other current assets	205	615
Other noncurrent assets	15	(95)
Accounts payable and accrued expenses	1,118	92
Income taxes	18	(1,071)
Other liabilities	149	152
	<u>5,170</u>	<u>(1,393)</u>
Investing activities:		
Purchases of property, plant and equipment	(495)	(724)
	<u>(495)</u>	<u>(724)</u>
Financing activities:		
Repayment of revolving credit facility, net	(4,044)	—
Repayment of long-term financing	(500)	(500)
Repurchase of common stock	—	(268)
Proceeds from exercise of stock options	98	103
Dividends paid	(243)	(205)
	<u>(4,689)</u>	<u>(870)</u>
	<u>(14)</u>	<u>(2,987)</u>
Cash at beginning of period	203	4,102
Cash at end of period	<u>\$ 189</u>	<u>\$ 1,115</u>
Supplemental cash flow information:		
Cash paid during the period for interest	<u>\$ 91</u>	<u>\$ 104</u>
Cash paid during the period for income taxes	<u>\$ 167</u>	<u>\$ 2,142</u>
Noncash financing activity—issuance of common stock	<u>\$ 38</u>	<u>\$ 710</u>

See accompanying notes to condensed consolidated financial statements.



**DELTA APPAREL, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Note A—Basis of Presentation**

The interim condensed consolidated financial statements for the three months ended September 27, 2003 and September 28, 2002, included herein, have been prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 27, 2003 are not necessarily indicative of the results that may be expected for the year ending July 3, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended June 28, 2003, filed with the Securities and Exchange Commission.

**Note B—Inventories**

Inventories consist of the following:

	September 27, 2003	June 28, 2003
Raw materials	\$ 2,767	2,895
Work in process	18,107	16,580
Finished goods	29,336	27,699
	<u>\$50,210</u>	<u>47,174</u>

**Note C—Income Taxes**

The effective income tax rate on pretax income for the three months ended September 27, 2003 was 38.0%, compared to 38.3% for the fiscal year ended June 28, 2003.

**Note D—Stock Options and Incentive Stock Awards**

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), requires use of option valuation models that were not developed for use in valuing employee stock options.

The following table illustrates the effect on net income and earnings per share as if the fair value based method had been applied to all outstanding and unvested options and awards in each period.

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	Three Months Ended	
	September 27, 2003	September 28, 2002
Net income, as reported	\$ 589	\$1,791
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	87	157
Deduct: Total stock-based employee compensation expense determined under fair value based method for all options and awards, net of related tax effects	(87)	(80)
Pro forma net income	\$ 589	\$1,868
Earnings per share:		
Basic—as reported	\$0.15	\$ 0.44
Basic—pro forma	\$0.15	\$ 0.46
Diluted—as reported	\$0.14	\$ 0.43
Diluted—pro forma	\$0.14	\$ 0.44

### **Note E—Purchase Contracts**

The Company has entered into agreements, and has fixed prices, to purchase cotton and natural gas for use in its manufacturing operations. At September 27, 2003, minimum payments under these contracts to purchase cotton and natural gas with non-cancelable contract terms were \$3.7 million and \$0.3 million, respectively.

### **Note F—Computation of Basic and Diluted Net Earnings per Share (EPS)**

Basic net earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share includes the dilutive effect of stock options and non-vested stock awards granted under the Company's Stock Option Plan and the Company's Incentive Stock Award Plan.

The weighted average shares do not include securities that would be anti-dilutive for each of the periods presented.

### **Note G—Stockholders' Equity**

#### Stock Repurchase Program

On November 1, 2000, the Board of Directors authorized the repurchase by the Company in open market transactions of up to \$3.0 million of Delta Apparel common stock ("Stock Repurchase Program"). All purchases are made at the discretion of management. On September 13, 2002, the Board of Directors authorized the repurchase by the Company in open market transactions of up to an additional \$3.0 million of Delta Apparel common stock pursuant to its Stock Repurchase Program, bringing the total amount authorized to \$6.0 million. The Company did not purchase shares of Delta Apparel common stock during the three months ended September 27, 2003. Since the inception of the Stock Repurchase Program, the Company has purchased 360,204 shares of Delta Apparel common stock pursuant to the program for an aggregate of \$4.1 million.

#### Quarterly Dividend Program

On August 14, 2003, the Board declared a cash dividend pursuant to the Company's quarterly dividend program of six cents per share of common stock. The dividend was paid on September 15, 2003 to shareholders of record as of the close of business on September 3, 2003. On October 20, 2003, the Board declared a cash dividend of six cents per share of common stock payable November 17, 2003 to shareholders of record as of the close of business on November 5, 2003. Although the Board may terminate or amend the program at any time, the Company currently expects to continue the quarterly dividend program.

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### **Note H—Subsequent Events**

On October 3, 2003, Delta Apparel completed the acquisition of all of the outstanding capital stock of M. J. Soffe Co., a North Carolina corporation (the “Acquisition”). The Acquisition was consummated by means of a stock purchase transaction pursuant to which MJS Acquisition Company, a North Carolina corporation and newly-formed, wholly-owned subsidiary of Delta Apparel (“MJS”), acquired all of the outstanding capital stock of M. J. Soffe Co. from the shareholders of M. J. Soffe Co., James F. Soffe, John D. Soffe, and Anthony M. Cimaglia (collectively, the “Individuals”), pursuant to an Amended and Restated Stock Purchase Agreement (the “Stock Purchase Agreement”) dated as of October 3, 2003 by and among Delta Apparel, MJS, M. J. Soffe Co., and the Individuals. Immediately following the Acquisition, M. J. Soffe Co. was merged with and into MJS (the “Merger”), with MJS as the surviving corporation in the Merger, and MJS’s name was changed to M. J. Soffe Co.

The aggregate consideration paid to the Individuals for all of the outstanding capital stock of M. J. Soffe Co. consisted of (i) aggregate cash payments of approximately \$43.5 million; and (ii) the issuance of a promissory note to the Individuals in the aggregate principal amount of \$8 million (the “Shareholder Note”). Also, additional amounts are payable to the Individuals in cash during each of fiscal years 2005, 2006, and 2007 if specified financial performance targets are met by M. J. Soffe Co. during annual periods beginning on September 28, 2003 and ending on September 30, 2006 (the “Earnout Amounts”). The Earnout Amounts are capped at a maximum aggregate amount of \$12 million. In addition, pursuant to the Stock Purchase Agreement, MJS paid approximately \$8.5 million to satisfy all outstanding bank debt of M. J. Soffe Co.

M. J. Soffe Co. manufactures, markets, and sells casual and athletic apparel. It has a textile and sewing facility in Fayetteville, North Carolina, as well as two additional sewing plants, one each in Bladenboro and Rowland, North Carolina. In addition, M. J. Soffe Co. contracts approximately 30% of its sewing requirement from two 50% owned facilities in Costa Rica. M. J. Soffe Co. leases its primary distribution center in Fayetteville, North Carolina and also leases space for satellite distribution facilities in other parts of the United States.

On October 3, 2003, Delta Apparel entered into an Amended and Restated Loan and Security Agreement with Congress Financial Corporation (Southern), as lender and as agent for the financial institutions named as lenders, pursuant to which Delta’s existing line of credit (the “Delta Facility”) was increased to \$40 million, which represents a \$5 million increase in Delta apparel’s predecessor credit facility.

Also on October 3, 2003, MJS entered into a Loan and Security Agreement with Congress Financial Corporation (Southern), as lender and as agent for the financial institutions named as lenders, which provides M. J. Soffe Co. with a \$38.5 million line of credit (the “Soffe Facility”). Together, the Delta Facility and the Soffe Facility provide for lines of credit in an aggregate amount of \$78.5 million. The Delta Facility and the Soffe Facility are secured by a first priority lien on all of the assets of Delta Apparel and M. J. Soffe Co. Delta Apparel is a guarantor of the Soffe Facility, and M. J. Soffe Co. is a guarantor for the Delta Facility. M. J. Soffe Co has the option to increase the Soffe Facility from \$38.5 million to \$41.0 million, provided that no event of default exists under the facility.

### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion contains various “forward-looking statements”. All statements, other than statements of historical fact, that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. Examples are statements that concern future revenues, future costs, future capital expenditures, business strategy, competitive strengths, competitive weaknesses, goals, plans, references to future success or difficulties and other similar information. The words “estimate”, “project”, “forecast”, “anticipate”, “expect”, “intend”, “believe” and similar expressions, and discussions of strategy or intentions, are intended to identify forward-looking statements.

The forward-looking statements in this Quarterly Report are based on the Company’s expectations and are necessarily dependent upon assumptions, estimates and data that the Company believes are reasonable and accurate but may be incorrect, incomplete or imprecise. Forward-looking statements are also subject to a number of business risks and uncertainties, any of which could cause actual results to differ materially from those set forth in or implied by the forward-looking statements. The risks and uncertainties include, among others, changes in the retail demand for apparel products, the cost of raw materials, competitive conditions in the apparel and textile industries, the relative strength of the United States dollar as against other currencies, changes in United States trade regulations, including without limitation the expected end of quotas on textile and apparel products among WTO member states in 2005 and the discovery of unknown conditions (such as with respect to

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environmental matters and similar items) and other risks described from time to time in the Company's reports filed with the Securities and Exchange Commission. Accordingly, any forward-looking statements do not purport to be predictions of future events or circumstances and may not be realized.

The Company does not undertake publicly to update or revise the forward-looking statements even if it becomes clear that any projected results will not be realized.

### BUSINESS OUTLOOK

Pricing for commodity activewear products remained difficult during the last quarter. The pricing level on basic white products was well below the Company's expectations. Given the level of competition, Delta Apparel was pleased with the sales growth it achieved.

Delta Apparel continued to open many new accounts during the quarter and shipped to over 1300 customers, up approximately 67% from the number of customers shipped in the first quarter of last year. Unit sales to the top twenty accounts declined slightly from last year further showing the growth that the medium and smaller accounts are providing. The distributor segment accounted for less than 9% of the sales in the quarter ended September 27, 2003.

At this time the Company is encouraged with the pricing trends in the marketplace and believes there is support for higher basic T-shirt pricing. Overall unit growth remains strong and could increase further based on an improving economy and low inventories at the retail level. Cotton futures have increased dramatically over the last several weeks, putting pressure on all manufacturers to pass on these cost increases. Inventories at the distributor level are growing slower than sales. Overall profitability of the activewear business segment has deteriorated in the last two quarters, putting higher leveraged companies at risk.

Given these current trends, Delta Apparel expects sales of our basic Delta products to continue to grow in unit and total dollar sales in our second fiscal quarter. Gross margins on Delta Apparel business should also improve. We have taken actions to move more production away from white T-shirts which is expected to help the product mix in the second half of this year. The Company is also continuing to develop and market more non-commodity apparel products to sell to its growing account base.

During the quarter, the Company also continued to lower its manufacturing costs. These cost reductions came from improving production efficiencies at the plants, improving material utilization, and lowering off-quality production. Delta Apparel has minimized its capital expenditures during the past several months, while concentrating on efficiency improvements. The Company expects to spend approximately \$3.0 million on capital expenditures during the fiscal year on the Delta Apparel business (excluding capital expenditures on the Soffe operations).

On October 3, 2003, the Company completed the acquisition of all of the outstanding capital stock of M. J. Soffe Co. Similar to Delta Apparel, M. J. Soffe Co. manufactures, markets, and sells casual and athletic apparel. The M. J. Soffe product line is broader than the Delta Apparel product line as it includes both activewear tops and bottoms. It has a textile and sewing facility in Fayetteville, North Carolina, as well as two additional sewing plants, one each in Bladenboro and Rowland, North Carolina. In addition, M. J. Soffe Co. contracts approximately 30% of its sewing requirement from two 50% owned facilities in Costa Rica. M. J. Soffe Co. leases its primary distribution center in Fayetteville, North Carolina and also leases space for satellite distribution facilities in other parts of the United States.

The acquisition of M. J. Soffe Co. will be accounted for using the purchase method of accounting. The fair value of M. J. Soffe Co.'s assets and related liabilities are based on preliminary estimates. Additional analysis will be required to determine the fair value of M. J. Soffe Co.'s assets and liabilities, primarily with respect to inventory, property, plant and equipment, and certain assumed liabilities. Such analysis and determination of allocation of purchase price is expected to be substantially complete by the end of Delta Apparel's second quarter.

The following unaudited pro forma information for the year ended June 28, 2003 gives effect to the acquisition of M. J. Soffe Co. and the borrowings under the new revolving credit facilities as if each had occurred on June 30, 2002. The unaudited pro forma information is based on assumptions that we believe are reasonable under the circumstances and are intended for informational purposes only. They are not necessarily indicative of our future results of operations or results of operations that would have actually occurred had the acquisition of M. J. Soffe Co. taken place for the period presented.

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**Unaudited Pro Forma Information**  
(Amounts in thousands, except per share amounts)

	Delta Apparel Year Ended June 28, 2003	M. J. Soffe Year Ended June 28, 2003	Pro Forma Combined Year Ended June 28, 2003
Net sales	\$ 129,521	\$ 93,800	\$ 223,321
Operating income	10,555	11,425	23,146
Net income	6,063	6,821	12,045
Pro forma earnings per share			
Basic	\$ 1.50		\$ 2.98
Diluted	\$ 1.45		\$ 2.88

M. J. Soffe Co. results will be included in Delta Apparel's financials beginning on October 3, 2003. Therefore, the results of Delta Apparel, Inc. for the fiscal year ended July 3, 2004 will include approximately nine months of the operations of M. J. Soffe Co.

#### RESULTS OF OPERATIONS

Net sales for the first quarter of fiscal year 2004 were \$30.8 million, an increase of \$1.9 million, or 6.6%, from net sales of \$28.9 million for the first quarter of the prior year. The increase in net sales was the result of higher unit sales (up 21.3%, accounting for \$6.1 million) partially offset by lower average unit prices (down 12.1%, accounting for \$4.2 million). The higher unit volume resulted primarily from increased sales in heavyweight, private label and specialty tee styles. Pricing declines during the quarter were primarily in the basic white and colored tees. Delta Apparel's specialty tees continued to generate above average margins and partially offset declining margins on basic tees. Although the Company expects its sales during fiscal year 2004 to exceed its fiscal year 2003 sales, there can be no assurance that the Company will achieve this expected sales growth.

Gross profit as a percentage of net sales decreased to 13.3% for the first quarter of fiscal year 2004 from 20.8% for the first quarter of the prior year. The \$1.9 million decrease in gross margin for the quarter was primarily the result of a \$4.4 million decrease in selling prices, offset partially by increased sales volume contributing \$1.2 million, decreased depreciation expense contributing \$0.5 million and other textile manufacturing improvements.

Selling, general and administrative expenses, including the provision for bad debts, for the first quarter of fiscal year 2004 were \$3.1 million, or 9.9% of sales, an increase of \$0.2 million from the first quarter of the prior year. Distribution expenses increased \$0.4 million primarily as a result of the increased shipping volume during the quarter and expenses related to the new Florida distribution center that opened in February 2003. The increase in distribution expenses was partially offset by a \$0.2 million decrease in general and administrative expenses as a result of lower incentive compensation expense resulting from the lower operating earnings.

Other income for the first quarter of fiscal year 2004 was \$0.1 million, an increase of \$0.2 million from the first quarter of the prior year. Other income in the three months ended September 27, 2003 was primarily the result of gains on cotton options that were marked to market. Other expense in the three months ended September 28, 2002 was primarily the result of a \$0.1 million loss on the sale of cotton options.

Operating income for the first quarter of fiscal year 2004 was \$1.1 million, a decrease of \$2.0 million, or 63.9%, from \$3.1 million for the first quarter of the prior year. The decrease in operating income was primarily the result of the decreased gross profit.

Net interest expense for the first quarter of fiscal year 2004 was \$154 thousand compared to \$148 thousand for the first quarter of the prior year. The increase in interest expense resulted from an increase in the average debt outstanding, partially offset by a reduction in the average interest rates.

The effective tax rate for the first quarter of fiscal year 2004 was 38.0% compared to 38.5% for the first quarter of the prior year and 38.3% for the fiscal year ended June 28, 2003.

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Net income for the first quarter of fiscal year 2004 was \$0.6 million, a decrease of \$1.2 million from net income of \$1.8 million for the first quarter of the prior year, due to the factors described above.

Accounts receivable decreased \$4.8 million from June 28, 2003 to \$17.4 million on September 27, 2003. The decrease was a result of lower sales during the quarter ended September 27, 2003 compared to the quarter ended June 28, 2003. In addition, days sales outstanding were 46 days at September 27, 2003 compared to 55 days at June 28, 2003.

Inventories at September 27, 2003 totaled \$50.2 million compared to \$47.2 million at June 28, 2003. The increase in inventory is primarily the result of a \$1.5 million increase in in-process inventory and a \$1.6 million increase in finished goods. The increase in inventory was primarily the result of planned inventory increases in anticipation of increased unit volume sales.

Capital expenditures in the first quarter of fiscal year 2004 were \$0.5 million compared to \$0.7 million in the first quarter of the prior year. The expenditures during the first quarter of fiscal years 2004 and 2003 primarily related to increasing capacity and lowering costs in the Company's existing textile facilities.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs are for working capital and capital expenditures. In addition, the Company uses cash to fund its share repurchases under its Stock Repurchase Program. The Company has financed its working capital and capital expenditure requirements through its operating profits and its credit agreement with Congress Financial Corporation (Southern). During the quarter ended September 27, 2003, the credit agreement provided Delta Apparel with a \$10 million term loan and a \$25 million revolving credit facility, both maturing on May 1, 2005. All loans under the credit agreement bear interest at rates based on an adjusted LIBOR rate plus an applicable margin or a bank's prime rate plus an applicable margin. Delta Apparel granted the lender a first mortgage lien on or security interest in substantially all of its assets. At September 27, 2003, the Company had a \$2.2 million outstanding balance under its revolving credit facility at an average interest rate of 4.0%. The interest rate on its term loan at September 27, 2003 was 3.11%.

On October 3, 2003, Delta Apparel entered into an Amended and Restated Loan and Security Agreement with Congress Financial Corporation (Southern), pursuant to which Delta Apparel's existing line of credit (the "Delta Facility") was increased to \$40 million. Also on October 3, 2003, the MJS Acquisition Company, a newly-formed, wholly-owned subsidiary of Delta Apparel, purchased all of the outstanding stock of the M. J. Soffe Co., M. J. Soffe Co. was merged into MJS Acquisition Company, and MJS Acquisition Company changed its name to M. J. Soffe Co. Pursuant to this transaction, the MJS Acquisition Company entered into a Loan and Security Agreement with Congress Financial Corporation (Southern) which provides M. J. Soffe Co. with a \$38.5 million line of credit (the "Soffe Facility"). Together, the Delta Facility and the Soffe Facility provide for lines of credit in an aggregate amount of \$78.5 million. The Delta Facility and the Soffe Facility are secured by a first priority lien on all of the assets of Delta Apparel and M. J. Soffe Co. Delta Apparel is a guarantor of the Soffe Facility, and M. J. Soffe Co. is a guarantor for the Delta Facility. M. J. Soffe Co. has the option to increase the Soffe Facility from \$38.5 million to \$41.0 million, provided that no event of default exists under the facility.

Delta Apparel's operating activities provided cash of \$5.2 million in the first quarter of fiscal year 2004 and used cash of \$1.4 million in the first quarter of the prior year. The cash provided in the first quarter of fiscal year 2004 was primarily due to a reduction in accounts receivable and an increase in accounts payable and accrued liabilities, partially offset by an increase in inventory. The cash used in the first quarter of the prior year was primarily due to an increase in inventory, partially offset by net income plus depreciation and a reduction in accounts receivable.

Based on its expectations, Delta Apparel believes that its revolving credit facilities should be sufficient to satisfy its foreseeable working capital needs, and that the cash flow generated by its operations and funds available under its revolving credit lines should be sufficient to service its debt payment requirements, to satisfy its day-to-day working capital needs, to fund its planned capital expenditures, to fund purchases of its stock as described below and to fund the payment of dividends as described below. Any material deterioration in Delta Apparel's results of operations, however, may result in Delta Apparel losing its ability to borrow under its revolving credit facility and to issue letters of credit to suppliers or may cause the borrowing availability under that facility to be insufficient for the Company's needs.

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### **Purchases by Delta Apparel of its Own Shares**

The Company did not purchase shares of Delta Apparel common stock during the three months ended September 27, 2003. Since the inception of the Stock Repurchase Program, the Company has purchased 360,204 shares of Delta Apparel common stock pursuant to the Stock Repurchase Program for an aggregate of \$4.1 million. The Company has authorization from the Board of Directors to spend up to a total of \$6.0 million for share repurchases under the program. All purchases are made at the discretion of management.

### **Dividend Program**

On August 14, 2003, the Board declared a cash dividend pursuant to the Company's quarterly dividend program of six cents per share of common stock. The dividend was paid on September 15, 2003 to shareholders of record as of the close of business on September 3, 2003. On October 20, 2003, the Board declared a cash dividend of six cents per share of common stock payable November 17, 2003 to shareholders of record as of the close of business on November 5, 2003. Although the Board may terminate or amend the program at any time, the Company currently expects to continue the quarterly dividend program.

### CRITICAL ACCOUNTING POLICIES

There have been no changes in our critical accounting policies since the filing of our Annual Report on Form 10-K for the year ended June 28, 2003.

### NEW ACCOUNTING STANDARDS

In April 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The changes in this Statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. The Company adopted SFAS 149 in its first quarter of fiscal year 2004. The adoption of SFAS 149 had no impact on the Company's financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, which addresses consolidation of variable interest entities. FIN 46 expands the criteria for consideration in determining whether a variable interest entity should be consolidated by a business entity, and requires existing unconsolidated variable interest entities (which include, but are not limited to, Special Purpose Entities, or SPEs) to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The Company is currently evaluating the impact of FIN 46 on its financial statements and does not believe that the adoption of FIN 46 will have a material impact on the Company's financial statements.

### ENVIRONMENTAL AND REGULATORY MATTERS

Delta Apparel is subject to various federal, state and local environmental laws and regulations concerning, among other things, wastewater discharges, storm water flows, air emissions and solid waste disposal. Delta Apparel's plants generate very small quantities of hazardous waste, which are either recycled or disposed of off-site. Most of its plants are required to possess one or more discharge permits.

On May 27, 2002, the Company received a renewal of its National Pollution Discharge Elimination System ("NPDES") permit from the North Carolina Department of Environment and Natural Resources, Division of Water Quality ("DWQ") for its Maiden, North Carolina textile plant. Among other things, the new permit required the Company to reduce its effluent (waste discharge) color to specified color concentration limits. The Company believed that the DWQ exceeded its authority and acted arbitrarily in imposing the specific color concentration limitations within the new permit and, on July 23, 2002 contested the permit by filing a petition with the North Carolina Office of Administrative Hearings. The Company and DWQ have reached a tentative settlement and have stayed the contested case until December 1, 2003. The tentative settlement provides that Delta Apparel will have one year to research and test alternative color removal technologies and thereafter must select and implement a technology. In addition, Delta Apparel must continue to monitor its color removal.

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The Company does not currently have an estimate of the amount of additional annual expenses, if any, that the Company may incur in the future in order to comply with the tentative settlement. The Company believes that the cost of compliance will not be material to the results of operations or financial condition of the Company.

Delta Apparel incurs capital and other expenditures each year that are aimed at achieving compliance with current and future environmental standards. Generally, the environmental rules applicable to Delta Apparel are becoming increasingly stringent. Delta Apparel does not expect that the amount of these expenditures in the future will have a material adverse effect on its operations, financial condition or liquidity. There can be no assurance, however, that future changes in federal, state, or local regulations, interpretations of existing regulations or the discovery of currently unknown problems or conditions will not require substantial additional expenditures. Similarly, the extent of Delta Apparel's liability, if any, for past failures to comply with laws, regulations and permits applicable to its operations cannot be determined.

### RECENT DEVELOPMENTS

On October 3, 2003, Delta Apparel completed the acquisition of all of the outstanding capital stock of M. J. Soffe Co., a North Carolina corporation (the "Acquisition"). The Acquisition was consummated by means of a stock purchase transaction pursuant to which MJS Acquisition Company, a North Carolina corporation and newly-formed, wholly-owned subsidiary of Delta Apparel ("MJS"), acquired all of the outstanding capital stock of M. J. Soffe Co. from the shareholders of M. J. Soffe Co., James F. Soffe, John D. Soffe, and Anthony M. Cimaglia (collectively, the "Individuals"), pursuant to an Amended and Restated Stock Purchase Agreement (the "Stock Purchase Agreement") dated as of October 3, 2003 by and among Delta Apparel, MJS, M. J. Soffe Co., and the Individuals. Immediately following the Acquisition, M. J. Soffe Co. was merged with and into MJS (the "Merger"), with MJS as the surviving corporation in the Merger, and MJS's name was changed to M. J. Soffe Co.

The aggregate consideration paid to the Individuals for all of the outstanding capital stock of M. J. Soffe Co. consisted of (i) aggregate cash payments of approximately \$43.5 million; and (ii) the issuance of a promissory note to the Individuals in the aggregate principal amount of \$8 million (the "Shareholder Note"). Also, additional amounts are payable to the Individuals in cash during each of fiscal years 2005, 2006, and 2007 if specified financial performance targets are met by M. J. Soffe Co. during annual periods beginning on September 28, 2003 and ending on September 30, 2006 (the "Earnout Amounts"). The Earnout Amounts are capped at a maximum aggregate amount of \$12 million. In addition, pursuant to the Stock Purchase Agreement, MJS paid approximately \$8.5 million to satisfy all outstanding bank debt of M. J. Soffe Co.

M. J. Soffe Co. manufactures, markets, and sells casual and athletic apparel. It has a textile and sewing facility in Fayetteville, North Carolina, as well as two additional sewing plants, one each in Bladenboro and Rowland, North Carolina. In addition, M. J. Soffe Co. contracts approximately 30% of its sewing requirement from two 50% owned facilities in Costa Rica. M. J. Soffe Co. leases its primary distribution center in Fayetteville, North Carolina and also leases space for satellite distribution facilities in other parts of the United States.

On October 3, 2003, Delta Apparel entered into an Amended and Restated Loan and Security Agreement with Congress Financial Corporation (Southern), as lender and as agent for the financial institutions named as lenders, pursuant to which Delta Apparel's existing line of credit (the "Delta Facility") was increased to \$40 million, which represents a \$5 million increase in Delta Apparel's predecessor credit facility.

Also on October 3, 2003, MJS entered into a Loan and Security Agreement with Congress Financial Corporation (Southern), as lender and as agent for the financial institutions named as lenders, which provides M. J. Soffe Co. with a \$38.5 million line of credit (the "Soffe Facility"). Together, the Delta Facility and the Soffe Facility provide for lines of credit in an aggregate amount of \$78.5 million. The Delta Facility and the Soffe Facility are secured by a first priority lien on all of the assets of Delta Apparel and M. J. Soffe Co. Delta Apparel is a guarantor of the Soffe Facility, and M. J. Soffe Co. is a guarantor for the Delta Facility. M. J. Soffe Co has the option to increase the Soffe Facility from \$38.5 million to \$41.0 million, provided that no event of default exists under the facility.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### COMMODITY RISK SENSITIVITY

The Company purchases cotton from approximately eight established merchants with whom it has long-standing relationships. The majority of the Company's purchases are executed using "on-call" contracts. These on-call arrangements are used to

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ensure that an adequate supply of cotton is available for the Company's requirements. Under on-call contracts, the Company agrees to purchase specific quantities for delivery on specific dates, with pricing to be determined at a later time. Prices are set according to prevailing prices, as reported by the New York Cotton Exchange, at the time of the Company's election to fix specific contracts.

Cotton on-call with a fixed price at September 27, 2003 was valued at \$3.7 million, and is scheduled for delivery between October 2003 and December 2003. At September 27, 2003, the Company had unpriced contracts for deliveries between January 2004 and June 2004. Based on the prevailing price at September 27, 2003, the value of these unpriced commitments is approximately \$15.8 million. At September 27, 2003, a 10% decline in the market price of the cotton covered by Delta Apparel's fixed price contracts would have had a negative impact of approximately \$0.4 million on the value of the contracts. At June 28, 2003, cotton on-call with a fixed price was valued at \$7.2 million. At June 28, 2003, a 10% decline in the market price of the cotton covered by Delta Apparel's fixed price contracts would have had a negative impact of approximately \$0.7 million. The effect of a 10% decline in the market price of cotton on Delta Apparel's fixed price contracts would have been less at September 27, 2003 than at June 28, 2003 because the value of Delta Apparel's fixed price cotton on-call contracts was less on September 27, 2003. Daily price fluctuations are minimal, yet long-term trends in price movement can result in unfavorable pricing of cotton for Delta Apparel.

The Company uses derivatives, including cotton option contracts, to manage its exposure to movements in commodity prices. The Company did not designate its options as hedge instruments upon inception. Accordingly, changes in the fair market value are marked to market. The Company owned options valued at \$0.1 million on September 27, 2003.

### INTEREST RATE SENSITIVITY

Delta Apparel's credit agreement provides that the interest rate on outstanding amounts owed shall bear interest at variable rates. If the amount of outstanding indebtedness at September 27, 2003 under the revolver and term loan had been the amount outstanding during the entire three months ended September 27, 2003 and the interest rate on this outstanding indebtedness had been increased by 100 basis points, Delta Apparel's expense would have increased by approximately \$13,000, or 8.6%, for the quarter. This compares to an increase of \$99,000 or 13.5% for the 2003 fiscal year, or an average of \$24,750 per quarter, based on the outstanding indebtedness at June 28, 2003. The decrease is due to the amount outstanding under the Company's revolver and term loan being lower at September 27, 2003 than at June 28, 2003. The actual increase in interest expense resulting from a change in interest rates would depend on the magnitude of the increase in rates and the average principal balance outstanding.

### Item 4: Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as of September 27, 2003 and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective.

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On May 27, 2002, the Company received a renewal of its National Pollution Discharge Elimination System ("NPDES") permit from the North Carolina Department of Environment and Natural Resources, Division of Water Quality ("DWQ") for its Maiden, North Carolina textile plant. Among other things, the new permit required the Company to reduce its effluent (waste discharge) color to specified color concentration limits. The Company believed that the DWQ exceeded its authority

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and acted arbitrarily in imposing the specific color concentration limitations within the new permit and, on July 23, 2002 contested the permit by filing a petition with the North Carolina Office of Administrative Hearings. The Company and DWQ have reached a tentative settlement and have stayed the contested case until December 1, 2003. The tentative settlement provides that Delta Apparel will have one year to research and test alternative color removal technologies and thereafter must select and implement a technology. In addition, Delta Apparel must continue to monitor its color removal.

The Company does not currently have an estimate of the amount of additional annual expenses, if any, that the Company may incur in the future in order to comply with the tentative settlement. The Company believes that the cost of compliance will not be material to the results of operations or financial condition of the Company.

### **Item 6. Exhibits and Reports on Form 8-K**

- (a) Exhibits.
- 3.1.2 Amendment to Articles of Incorporation of the Company dated September 18, 2003.
- 10.1 Amended and Restated Loan and Security Agreement dated as of October 3, 2003 among Delta Apparel, Inc., Congress Financial Corporation (Southern), as Agent, and certain financial institutions named therein, as Lenders: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 17, 2003.
- 10.2 Loan and Security Agreement dated as of October 3, 2003 among MJS Acquisition Company, Congress Financial Corporation (Southern), as Agent, and certain financial institutions named therein, as Lenders: Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on October 17, 2003.
- 10.3 General Security Agreement of MJS Acquisition Company and SAIM, LLC in favor of Congress Financial Corporation (Southern), as Agent, dated as of October 3, 2003: Incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on October 17, 2003.
- 10.4 General Security Agreement of Delta Apparel, Inc. and SAIM, LLC in favor of Congress Financial Corporation (Southern), as Agent, dated as of October 3, 2003: Incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed on October 17, 2003.
- 10.5 Trademark Security Agreement dated as of October 3, 2003 between MJS Acquisition Company and Congress Financial Corporation (Southern), as Agent: Incorporated by reference to Exhibit 10.5 to the Company's Form 8-K filed on October 17, 2003.
- 10.6 Form of Deed of Trust of M. J. Soffe Co. in favor of Congress Financial Corporation (Southern), as Agent, dated as of October 3, 2003: Incorporated by reference to Exhibit 10.6 to the Company's Form 8-K filed on October 17, 2003.
- 10.7 Stock Pledge Agreement dated as of October 3, 2003 by and among Delta Apparel, Inc., MJS Acquisition Company, and Congress Financial Corporation (Southern), as Agent: Incorporated by reference to Exhibit 10.7 to the Company's Form 8-K filed on October 17, 2003.
- 10.8 Guarantee of MJS Acquisition Company and SAIM, LLC in favor of Congress Financial Corporation (Southern), as Agent, dated as of October 3, 2003: Incorporated by reference to Exhibit 10.8 to the Company's Form 8-K filed on October 17, 2003.
- 10.9 Guarantee of Delta Apparel, Inc. and SAIM, LLC in favor of Congress Financial Corporation (Southern), as Agent, dated as of October 3, 2003: Incorporated by reference to Exhibit 10.9 to the Company's Form 8-K filed on October 17, 2003.
- 10.10 Collateral Assignment of Purchase Agreements dated as of October 3, 2003 by and among Delta Apparel, Inc., MJS Acquisition Company, and Congress Financial Corporation (Southern), as Agent: Incorporated by reference to Exhibit 10.10 to the Company's Form 8-K filed on October 17, 2003.
- 10.11 Subordination Agreement dated as of October 3, 2003 by and among Delta Apparel, Inc., MJS Acquisition Company, James F. Soffe, John D. Soffe, Anthony M. Cimaglia, and Congress Financial Corporation (Southern), as Agent: Incorporated by reference to Exhibit 10.11 to the Company's Form 8-K filed on October 17, 2003.

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- 10.12 Promissory Note of MJS Acquisition Company issued to James F. Soffe, John D. Soffe, and Anthony M. Cimaglia dated as of October 3, 2003: Incorporated by reference to Exhibit 10.12 to the Company's Form 8-K filed on October 17, 2003.
- 10.13 Security Agreement of MJS Acquisition Company in favor of James F. Soffe, John D. Soffe, and Anthony M. Cimaglia dated as of October 3, 2003: Incorporated by reference to Exhibit 10.13 to the Company's Form 8-K filed on October 17, 2003.
- 10.14 Form of Deed of Trust, Assignment of Rents and Security Agreement of M. J. Soffe Co. in favor of James F. Soffe, John D. Soffe, and Anthony M. Cimaglia dated as of October 3, 2003: Incorporated by reference to Exhibit 10.14 to the Company's Form 8-K filed on October 17, 2003.
- 10.15 Guaranty of Delta Apparel, Inc. in favor of James F. Soffe, John D. Soffe, and Anthony M. Cimaglia dated as of October 3, 2003: Incorporated by reference to Exhibit 10.15 to the Company's Form 8-K filed on October 17, 2003.
- 10.16 Pledge Agreement of Delta Apparel, Inc. in favor of James F. Soffe, John D. Soffe, and Anthony M. Cimaglia dated as of October 3, 2003: Incorporated by reference to Exhibit 10.16 to the Company's Form 8-K filed on October 17, 2003.
- 10.17 Employment and Non-Solicitation Agreement dated as of October 3, 2003 among Delta Apparel, Inc., M. J. Soffe Co., and James F. Soffe: Incorporated by reference to Exhibit 10.17 to the Company's Form 8-K filed on October 17, 2003.
- 10.18 Employment and Non-Solicitation Agreement dated as of October 3, 2003 among Delta Apparel, Inc., M. J. Soffe Co., and John D. Soffe: Incorporated by reference to Exhibit 10.18 to the Company's Form 8-K filed on October 17, 2003.
- 10.19 Employment and Non-Solicitation Agreement dated as of October 3, 2003 among Delta Apparel, Inc., M. J. Soffe Co., and Anthony M. Cimaglia: Incorporated by reference to Exhibit 10.19 to the Company's Form 8-K filed on October 17, 2003.
- 10.20 Real Estate Exchange Contract dated as of October 3, 2003 between MJS Acquisition Company and Middle Road Properties, LLC: Incorporated by reference to Exhibit 10.20 to the Company's Form 8-K filed on October 17, 2003.
- 10.21 Industrial Lease Agreement dated as of October 3, 2003 between M. J. Soffe Co. and Middle Road Properties, LLC: Incorporated by reference to Exhibit 10.21 to the Company's Form 8-K filed on October 17, 2003.
- 10.22 Employment Agreement between Delta Apparel, Inc. and Herbert M. Mueller dated September 30, 2003.
- 10.23 Employment Agreement between Delta Apparel, Inc. and Martha M. Watson dated September 30, 2003.
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(b) Reports on Form 8-K.

On July 8, 2003, the Company filed and furnished a Current Report on Form 8-K dated July 7, 2003 reporting information under Item 5 (Other Events), Item 7 (Financial Statements and Exhibits), Item 9 (Regulation F-D Disclosure) and Item 12 (Results of Operations and Financial Condition).

On August 12, 2003, the Company furnished a Current Report on Form 8-K reporting information under Item 7 (Financial Statements and Exhibits), Item 9 (Regulation F-D Disclosure) and Item 12 (Results of Operations and Financial Condition).

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**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 thereunto duly authorized.

October 31, 2003

\_\_\_\_\_  
Date

DELTA APPAREL, INC.  
(Registrant)

By: /s/ Herbert M. Mueller

\_\_\_\_\_  
Herbert M. Mueller  
Vice President, Chief Financial  
Officer and Treasurer

ARTICLES OF AMENDMENT  
OF  
DELTA APPAREL, INC.

The Articles of Amendment of DELTA APPAREL, INC. are as follows:

1.

The name of the Corporation is DELTA APPAREL, INC. (the "Corporation"), and its charter number is K950538.

2.

The Articles of Incorporation of the Corporation as heretofore granted by the Secretary of State of Georgia on the 10th day of December, 1999, are hereby amended to add the following new Section 3.4 to Article 3 thereof:

3.4 Treasury Stock. If the Corporation shall acquire any issued and outstanding shares of its Common Stock, all such reacquired shares shall be treasury shares except to the extent that the Board of Directors of the Corporation provides in duly adopted resolutions that some or all of such shares shall instead constitute authorized but unissued shares of the Corporation's Common Stock. The Board of Directors of the Corporation may adopt resolutions returning reacquired shares of its Common Stock to the status of authorized but unissued shares at any time after the Corporation's acquisition of such shares unless prohibited by the Code or other applicable law.

The amendment of the Articles of Incorporation of the Corporation set forth in paragraph 2 hereof was adopted by the Board of Directors of the Corporation effective as of September 18, 2003. Pursuant to Section 14-2-631(d) of the Georgia Business Corporation Code, shareholder approval of these articles of amendment was not required.

IN WITNESS WHEREOF, DELTA APPAREL, INC. has caused its duly authorized officer to execute these Articles of Amendment as of this 18th day of September, 2003.

By: \_\_\_\_\_

Name: Martha M. Watson

Title: Secretary

## EMPLOYMENT AND NON-SOLICITATION AGREEMENT

THIS EMPLOYMENT AND NON-SOLICITATION AGREEMENT (the "Agreement"), dated as of September 30, 2003, is by and between DELTA APPAREL, INC., a Georgia corporation (the "Company"), and Herbert M. Mueller, a Georgia resident ("Executive").

WHEREAS, Executive and the Company want to enter into a written agreement providing for the terms of Executive's employment by the Company, such agreement to replace and supersede that certain Employment and Non-Solicitation Agreement between Executive and the Company dated November 7, 2000 (the "Prior Agreement"); and

WHEREAS, Executive agrees that the Company's promises set out in this Agreement provide good and sufficient consideration for the promises of Executive set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual covenants set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Employment. Executive agrees to continue his employment with the Company, and the Company agrees to employ Executive, on the terms and conditions set forth in this Agreement. This Agreement shall replace and supersede the Prior Agreement, the term of which shall end upon the signing of this Agreement. Executive agrees during the term of this Agreement to devote substantially all of his business time, efforts, skills and abilities to the performance of his duties to the Company and to the furtherance of the Company's business.

Executive's initial job title will be Vice President, CFO and Company Treasurer and his duties will be those as are designated by the Chief Executive Officer of the Company.

2. Compensation.

(a) Base Salary. During the term of Executive's employment with the Company pursuant to this Agreement, the Company shall pay to Executive as compensation for his services an annual base salary of not less than \$200,000.00 ("Base Salary"). Executive's Base Salary will be payable in arrears in accordance with the Company's normal payroll procedures and will be reviewed annually and subject to upward adjustment at the discretion of the Company.

(b) Incentive Bonus. During the term of Executive's employment with the Company pursuant to this Agreement, Executive shall be entitled to participate in the Company's Short-Term Incentive Compensation Plan as in effect from time to time. Any cash compensation payable under this paragraph shall be referred to as "Incentive Compensation" in this Agreement.

(c) Executive Perquisites. During the term of Executive's employment with the Company pursuant to this Agreement, Executive shall be entitled to receive such executive perquisites and fringe benefits as are provided to the executives in comparable positions and their families under any of the Company's plans and/or programs in effect from time to time for which Executive is eligible to participate and to receive such other benefits as are customarily available to executives of the Company and their families, including, without limitation, vacations and life, medical and disability insurance.

(d) Tax Withholding. The Company shall have the right to deduct from any compensation payable to Executive under this Agreement social security (FICA) taxes and all federal, state, municipal or other taxes or charges as may now be in effect or that may hereafter be enacted or required.

(e) Expense Reimbursements. The Company shall pay or reimburse Executive for all reasonable business expenses incurred or paid by Executive in the course of performing his duties hereunder, including, but not limited to, reasonable travel expenses for Executive. As a condition to such payment or reimbursement, however, Executive shall maintain and provide to the Company reasonable documentation and receipts for such expenses.

3. Term. Unless sooner terminated pursuant to Section 4 of this Agreement, and subject to the provisions of Section 5 hereof, the term of this Agreement (the "Term") shall commence as of the date hereof and shall continue until December 31, 2006.

4. Termination. Notwithstanding the provisions of Section 3 hereof, but subject to the provisions of Section 5 hereof, Executive's employment under this Agreement shall terminate as follows:

(a) Death. Executive's employment shall terminate upon the death of Executive; provided, however, that the Company shall continue to pay (in accordance with its normal payroll procedures) the Base Salary to Executive's estate for a period of six (6) months after the date of Executive's death if Executive is employed by the Company on date of his death.

(b) Termination for Cause. The Company may terminate Executive's employment at any time for "Cause" (as hereinafter defined) by delivering a written termination notice to Executive. For purposes of this Agreement, "Cause" shall mean any of the following: (i) Executive's commission of a felony or a crime involving moral turpitude; (ii) Executive's commission of an act constituting fraud, deceit or material misrepresentation with respect to the Company or any of its affiliates; (iii) Executive's embezzlement of funds or assets from the Company or any of its affiliates; (iv) evidence sufficient to conclude that Executive is addicted to any alcoholic, controlled or illegal substance or drug; (v) Executive's commission of any act or omission of gross negligence or willful misconduct in the performance of his duties to the Company; or (vi) Executive's failure to correct or cure any material breach of or default under this Agreement not described in any of the preceding clauses within ten (10) days after receiving written notice of such breach or default from the Company. Determinations pursuant to this section shall be made by the Compensation Committee of the Company's Board of Directors, if any, and otherwise by the Company's Chief Executive Officer.

(c) Termination Without Cause. The Company may terminate Executive's employment at any time for any or no reason by delivering a written termination notice to Executive.

(d) Termination by Executive. Executive may terminate his employment at any time by delivering sixty (60) days prior written notice to the Company; provided, however, that the terms, conditions and benefits specified in Section 5 hereof shall apply or be payable to Executive only if such termination occurs as a result of a material breach by the Company of any provision of this Agreement which breach is not cured within ten (10) days after the Chief Executive Officer of the Company receives from Executive a written notice detailing such breach.

(e) Termination Following Disability. In the event Executive becomes "disabled" (as defined in the Company's disability insurance policy as in effect on the date of such disability) and is unable to perform his material duties and responsibilities hereunder for a period of at least ninety (90) days in the aggregate during any one hundred twenty (120) consecutive day period, the Company may terminate Executive's employment by delivering a written termination notice to Executive. Notwithstanding the foregoing, Executive shall continue to receive his full Base Salary and benefits to which he is entitled under this Agreement for a period of six (6) months after the effective date of such termination.

(f) Payments. Following any expiration or termination of this Agreement or Executive's employment hereunder, and in addition to (but not in duplication of) any amounts owed pursuant to Section 5 hereof, the Company shall pay to Executive all amounts earned by Executive hereunder prior to the date of such expiration or termination.

(g) Non-Disparagement. Executive agrees that during and following the termination of his employment he will not publicly (or in a manner he reasonably should have expected to be made public) disparage or otherwise make negative comments regarding the Company, its employees or its affiliates, provided, however, that the foregoing shall in no way restrict the Executive from in good faith reporting any concerns that he may have to (i) any authority within the Company designated to receive complaints or concerns from employees, including, without limitation, the Company's Board of Directors or a committee thereof, or (ii) any regulator or other governmental authority with supervisory responsibility for the Company (including, without limitation, the Securities and Exchange Commission) or the Company's independent auditors.

5. Certain Termination Benefits. In the event that:

- (i) the provisions of Section 6 do not apply;
- (ii) either (y) the Company terminates Executive's employment without Cause pursuant to Section 4(c) or (z) Executive terminates his employment pursuant to Section 4(d) as a result of an uncured material breach by the Company of any provision of this Agreement; and
- (iii) the Executive executes and delivers the release contemplated in Section (f) below,

then in such case the Company will provide Executive the benefits described in subsection (a) below and, if

and to the extent that Executive is eligible to participate in such plans, subsections (b) through (c) below.

(a) Base Salary and Incentive Compensation. For a period of twelve (12) months following the termination, the Company shall continue to pay to Executive (i) his Base Salary (as in effect as of the date of his termination) and (ii) Incentive Compensation (in an aggregate amount equal to the cash Incentive Compensation received by the Executive for the most recent fiscal year prior to his termination).

(b) Life and Group Disability Insurance. If and to the extent that the Company's plans in effect from time to time permit such coverage, the Company shall continue to provide Executive with the opportunity to obtain group life and disability insurance coverage for a period of twelve (12) months following termination at coverage levels and rates equal to those applicable to Executive immediately prior to such termination or, if different, as provided to other executive level employees during such twelve-month period.

(c) Medical Insurance. If and to the extent that the Company's plans in effect from time to time permit such coverage, the Company shall continue to provide Executive and his family with the opportunity to obtain group medical insurance coverage under the Company's medical plans (as the same may change from time to time) or other substantially similar health insurance for a period of twelve (12) months following termination at coverage levels and rates equal to those applicable to Executive immediately prior to such termination or, if different, as provided to other executive level employees during such twelve-month period or, at the Company's option, pay COBRA premiums during such twelve-month period.

(d) Offset. Any fringe benefits received by Executive in connection with any other employment accepted by Executive that are reasonably comparable, even if not necessarily as beneficial to Executive, to the fringe benefits then being provided by the Company pursuant to paragraphs (b) and (c) of this Section 5, shall be deemed to be the equivalent of such benefits, and shall terminate the Company's responsibility to continue providing the fringe benefits package, taken as a whole, then being provided by the Company pursuant to paragraphs (b) and (c) of this Section 5. The Company agrees that if Executive's employment with the Company is terminated, Executive shall have no duty to mitigate damages.

(e) Payment Default. Any amounts owed by the Company to Executive under this Section 5 that are not paid when due shall bear interest at a rate of 10% per annum.

(f) General Release. Acceptance by Executive of any amounts pursuant to this Section 5 shall constitute a full and complete release by Executive of any and all claims Executive may have against the Company, its officers, directors and affiliates, including, but not limited to, claims he might have relating to Executive's employment with the Company and cessation thereof; provided, however, that there may properly be excluded from the scope of such general release the following:

- (i) claims that Executive may have against the Company for reimbursement of ordinary and necessary business expenses incurred by him during the course of his employment;

(ii) claims that may be made by the Executive for payment of Base Salary, bonuses, fringe benefits, stock upon vesting of inactive stock awards, stock upon exercise of stock options properly due to him, or other amounts or benefits due to him under this Agreement;

(iii) claims respecting any matters for which the Executive is entitled to be indemnified under the Company's Certificate of Incorporation or By-laws or applicable law respecting third party claims asserted or third party litigation pending or threatened against the Executive; and

(iv) any claims prohibited by applicable law from being included in the release.

A condition to Executive's receipt of any amounts pursuant to this Section 5 shall be Executive's execution and delivery of a general release as described above. In exchange for such release, the Company shall, if Executive's employment is terminated without Cause, provide a release to Executive, but only with respect to claims against Executive that Executive identifies in writing to the Company at the time of such termination.

#### 6. Effect of Change of Control.

(a) If within one (1) year following a "Change of Control" (as hereinafter defined), Executive terminates his employment with the Company for "Good Reason" (as hereinafter defined) or the Company terminates

Executive's employment for any reason other than Cause, death or disability (as defined in Section 4(e)), the Company shall pay to Executive: (i) an amount equal to one times the Executive's Base Salary as of the date of termination; and (ii) an amount equal to the cash Incentive Compensation received by the Executive for the most recent fiscal year prior to his termination. In addition, the Company shall provide the Executive with out-placement assistance. In addition, the Company shall continue to provide the Executive with the opportunity to obtain coverage under the Company's various welfare and benefit plans, including retirement and group healthcare, dental and life in which Executive participates at the time of termination, for the period equal to twelve (12) months from the date of termination at coverage levels and rates substantially equal to those applicable to Executive immediately prior to such termination.

(b) "Change of Control" shall mean the date as of which: (i) there shall be consummated (1) any consolidation or merger of the Company other than a merger of the Company in which the holders of the Company's common stock immediately prior to the merger have the majority ownership of common stock of the surviving corporation immediately after the merger, or (2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or (ii) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% of the Company's outstanding common stock; or (iv) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors of the Company shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period. Notwithstanding anything to the contrary herein, the consummation of the transactions contemplated by the Stock Purchase Agreement by and among the Company, M.J. Soffe Co., a North Carolina company ("Soffe"), and the shareholders of Soffe, shall not constitute or give rise to a "Change of Control" within the meaning of this Agreement.

(c) "Good Reason" shall mean any of the following actions taken by the Company without the Executive's written consent after a Change of Control:

(i) the assignment to the Executive by the Company of duties inconsistent with, or the

reduction of the powers and functions associated with, the Executive's position, duties, responsibilities and status with the Company immediately prior to a Change of Control or Potential Change of Control (as defined below), or an adverse change in Executive's titles or offices as in effect immediately prior to a Change of Control or Potential Change of Control, or any removal of the Executive from or any failure to re-elect Executive to any of such positions, except in connection with the termination of his employment for disability (as provided in Section 4(e)) or Cause or as a result of Executive's death, except to the extent that a change in duties relates to the elimination of responsibilities attendant to the Company's no longer being a publicly traded company;

- (ii) a reduction by the Company in the Executive's Base Salary as in effect on the date of a Change of Control or Potential Change of Control, or as the same may be increased from time to time during the term of his Agreement;
- (iii) the Company shall require the Executive to be based anywhere other than at or within a 25-mile radius of the Company's principal executive offices or the location where the Executive is based on the date of a Change of Control or Potential Change of Control, or if Executive agrees to such relocation, the Company fails to reimburse the Executive for moving and all other expenses reasonably incurred in connection with such move;
- (iv) a significant increase in Executive's required travel on behalf of the Company;
- (v) the Company shall fail to continue in effect any Company-sponsored plan or benefit that is in effect on the date of a Change of Control or Potential Change of Control (other than the Incentive Stock Award Plan or the Company's stock option plan) and pursuant to which Executive has received awards or benefits and that provides (A) incentive or bonus compensation, (B) fringe benefits such as vacation, medical benefits, life insurance and accident insurance, (C) reimbursement for reasonable expenses incurred by the Executive in connection with the performance of duties with the Company, or (D) retirement benefits such as a Internal Revenue Code Section 401(k) plan, except to the extent that such plans taken as a whole are replaced with substantially comparable plans;
- (vi) any material breach by the Company of any provision of this Agreement which is not cured within ten (10) days of the Company's receipt from Executive of notice thereof; and
- (vii) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company effected in accordance with the provisions of Section 12.

(d) "Potential Change of Control" shall mean the date as of which (i) the Company enters into an agreement the consummation of which, or the approval by shareholders of which, would constitute a Change of Control; (ii) proxies for the election of directors of the Board of Directors of the Company are solicited by anyone other than the Company; (iii) any person (including, but not limited to, any individual, partnership, joint venture, corporation, association or trust) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change of Control; or (iv) any other event occurs which is deemed to be a Potential Change of Control by the Board of Directors of the Company and the Board adopts a resolution to the effect that a Potential Change of Control has occurred.

(e) In the event that (i) Executive would otherwise be entitled to the compensation and benefits described in Section 5 or 6(a) hereof ("Compensation Payments"), and (ii) the Company determines, based upon the advice of tax counsel, that, as a result of such Compensation Payments and any other benefits or payments required to be taken into account under the Internal Revenue Code of 1986, as amended (the "Code"), Section 280G(b)(2) ("Parachute Payments"), any of such Parachute Payments would be reportable by the Company as an "excess parachute payment" under Code Section 280G, such Compensation Payments shall be reduced to the extent necessary to cause the aggregate present value (determined in accordance with Code Section 280G and applicable regulations promulgated thereunder) of the Executive's Parachute Payments to equal 2.99 times the "base amount" as defined in Code Section 280G(b)(3) with respect to such Executive. However, such reduction in the Compensation Payments shall be made only if, in the opinion of such tax counsel, it would result in a larger Parachute Payment to the Executive than payment of the unreduced Parachute Payments after deduction in each case of tax imposed on and payable by the Executive under Section 4999 of the Code ("Excise Tax"). The value of any non-cash benefits or any deferred payment or benefit for purposes of this paragraph shall be determined by a firm of independent auditors selected by the Company.

(f) The parties hereto agree that the payments provided under Section 6(a) above are reasonable compensation in light of Executive's services rendered to the Company and that neither party shall assert that the payment of such benefits constitutes an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Code.

(g) Unless the Company determines that any Parachute Payments made hereunder must be reported as "excess parachute payments" in accordance with Section 6(e) above, neither party shall file any return taking the position that the payment of such benefits constitutes an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Code.

7. Non-Competition. Executive agrees that during the Term and for a period of four months from the date of the termination of Executive's employment with the Company pursuant to Sections 4(b), 4(c), 4(d), 4(e) or 6 herein or for any other reason that results in the Executive being entitled to the benefits described in Section 5, he will not, directly or indirectly, compete with the Company by providing to any company that is in a "Competing Business" services substantially similar to the services provided by Executive at the time of termination. Competing Business shall be defined as any business that engages, in whole or in part, in the manufacturing or marketing of activewear tee shirts in the United States of America (the "Restricted Territory"), and Executive's employment function or affiliation is directly or indirectly in such business of activewear tee shirt manufacturing or marketing.

8. Non-Solicitation. For a period of two years after the later of the expiration of the Term or the termination or cessation of his employment with the Company for any reason whatsoever, Executive shall not, on his own behalf or on behalf of any other person, partnership, association, corporation, or other entity, (a) solicit or in any manner attempt to influence or induce any employee of the Company or its subsidiaries or affiliates (known by the Executive to be such) to leave the employment of the Company or its subsidiaries or affiliates (other than through general advertisements not directed at any particular employee or group of employees), nor shall he use or disclose to any person, partnership, association, corporation or other entity any information obtained while an employee of the Company concerning the names and addresses of the Company's employees, or (b) solicit, entice or induce any customer or supplier of the Company (or any actively sought customer or supplier of the Company) at the time of expiration or termination for or on behalf of any Competing Business in the Restricted Territory.

9. Non-Disclosure of Trade Secrets. During and prior to the Term of this Agreement, Executive has had access to and became familiar with and will have access to and become familiar with various trade secrets and proprietary and confidential information of the Company and its affiliates, including, but not limited to, processes, computer programs, compilations of information, records, sales procedures, customer requirements, pricing techniques, customer lists, methods of doing business and other confidential information (collectively, referred to as "Trade Secrets") which are owned by the Company and/or its affiliates and regularly used in the operation of its or their business, and as to which the Company and/or its affiliates take precautions to prevent dissemination to persons other than certain directors, officers and employees. Executive acknowledges and agrees that the Trade Secrets (1) are secret and not known in the industry; (2) give the Company and/or its affiliates an advantage over competitors who do not know or use the Trade Secrets; (3) are of such value and nature as to make it reasonable and necessary to protect and preserve the confidentiality and secrecy of the Trade Secrets; and (4) are valuable, special and unique assets of the Company and/or its affiliates, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company and/or its affiliates. Executive may not use in any way or disclose any of the Trade Secrets, directly or indirectly, either during the Term or at any time after the expiration of the Term or the termination of Executive's employment with the Company for any reason whatsoever, except as required in the course of his employment under this Agreement, as required in connection with a judicial or administrative proceeding, or if the information becomes public knowledge other than as a result of an unauthorized disclosure by the Executive. All files, records, documents, information, data and similar items relating to the business of the Company and/or its affiliates, whether prepared by Executive or otherwise coming into his possession, will remain the exclusive property of the Company and/or its affiliates (as the case may be) and may not be removed from the premises of the Company under any circumstances without the prior written consent of the Board of Directors of the Company and/or its affiliates (as the case may be) (except in the ordinary course of business during Executive's period of active employment under this Agreement), and in any event must be promptly delivered to the Chief Executive Officer of the Company upon termination of Executive's employment with the Company. Executive agrees that upon his receipt of any subpoena, process or other request to produce or divulge, directly or indirectly, any Trade Secrets to any entity, agency, tribunal or person, Executive shall timely notify and promptly hand deliver a copy of the subpoena, process or other request to the Board of Directors of the Company. For this purpose, Executive irrevocably nominates and appoints the Company (including any attorney retained by the Company), as his true and lawful attorney-in-fact, to act in Executive's name, place and stead to perform any act that Executive might perform to defend and protect against any disclosure of any Trade Secrets. The rights granted to the Company and/or its affiliates in this Section 9 are intended to be in addition to and not in replacement of any protection of trade secrets provided by equity, any statute, judicially created law or other agreement.

10. Remedies. In the event that Executive violates any of the provisions of Sections 7, 8 or 9 hereof (the "Protective Covenants") or fails to provide the notice required by Section 4(d) hereof, in addition to any other remedy that may be available at law, in equity or hereunder, the Company shall be entitled to receive from Executive the profits, if any, received by Executive upon exercise of any Company granted stock options or incentive stock awards or upon lapse of the restrictions on any grant of restricted stock to the extent such options or rights were exercised, or such restrictions lapsed, subsequent to the commencement of the six-month period prior to the termination of Executive's employment. In addition, Executive acknowledges and agrees that any breach of a Protective Covenant by him will cause irreparable damage to the Company and/or its affiliates, the exact amount of which will be difficult to determine, and that the remedies at law for any such breach will be inadequate. Accordingly, Executive agrees that, in addition to any other remedy that may be available at law, in equity or hereunder, the Company, and/or its affiliates shall be entitled to specific performance and injunctive relief, without posting bond or other security, to enforce or prevent any violation of any of the Protective Covenants by him.

11. Severability. The parties hereto intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. The provisions of this Agreement are severable. The covenants on the part of the Executive contained in the Protective Covenants shall be construed as independent covenants and agreements of the Executive, independently supported by good and adequate consideration, shall be construed independently of the other provisions in this Agreement and shall survive this Agreement. The existence of any claim

or cause of action of Executive against the Company or any of its affiliates, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company or its affiliates of the covenants of Executive contained in this Agreement. The parties in no way intend to include a provision that contravenes public policy. Therefore, if any of the provisions, clauses, sentences, or paragraphs, or portions ("provisions") of this Agreement is unlawful, against public policy, or otherwise declared void or unenforceable, such provision shall be deemed excluded from this Agreement, which shall in all other respects remain in effect. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added as part of this Agreement a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable. If any Court should construe any portion of this Agreement to be too broad to prevent enforcement to its fullest extent then such portion shall be enforced to the maximum extent that the Court finds reasonable and enforceable.

## 12. Miscellaneous.

a. Notices. Any notices, consents, demands, requests, approvals and other communications to be given under this Agreement by either party to the other must be in writing and must be either (i) personally delivered, (ii) mailed by registered or certified mail, postage prepaid with return receipt requested, (iii) delivered by reputable overnight express delivery service or reputable same-day local courier service, or (iv) delivered by telex or facsimile transmission, with confirmed receipt, to the address set forth below, or to such other address as may be designated by the parties from time to time in accordance with this Section 12(a):

If to the Company:

Delta Apparel, Inc.  
2750 Premiere Parkway  
Suite 100  
Duluth, Georgia 30047  
Attn: Chief Executive Officer  
Fax No.: (678) 775-6999

If to Executive:

Herbert M. Mueller  
375 Oxford Meadow Run  
Alpharetta, Georgia 30004

Notices delivered personally or by overnight express delivery service or by local courier service are deemed given as of actual receipt. Mailed notices are deemed given three (3) business days after mailing. Notices delivered by telex or facsimile transmission are deemed given upon receipt by the sender of the answer back (in the case of a telex) or transmission confirmation (in the case of a facsimile transmission).

b. Entire Agreement. This Agreement supersedes any and all other agreements, either oral or written, between the parties with respect to the subject matter of this Agreement and contains all of the covenants and agreements between the parties with respect to the subject matter of this Agreement.

c. Modification. No change or modification of this Agreement is valid or binding upon the parties, nor will any waiver, termination or discharge of any term or condition of this Agreement be so binding, unless confirmed in writing and signed by the parties to this Agreement.

d. Governing Law and Venue. The parties acknowledge and agree that this Agreement and the obligations and undertakings of the parties under this Agreement will be performable in Georgia. This Agreement is governed by, and construed in accordance with, the laws of the State of Georgia without giving consideration to the conflict of laws provisions thereof. If any action is brought to enforce or interpret this Agreement, the parties consent to the jurisdiction and venue of the Federal District Court for the Northern District of Georgia and any state or superior court located in Fulton or Gwinnett Counties, Georgia.

e. Enforcement. Executive agrees that upon Executive's violation or threatened violation of any of the provisions of this Agreement, the Company shall, in addition to any other rights and remedies available to it, at law, in equity, or otherwise, be entitled to specific performance and injunctive relief including, without limitation, an injunction to be issued by any court of competent jurisdiction enjoining and restraining Executive from committing any violation or threatened violation of the provisions of this Agreement and Executive consents to the issuance of such injunction without the necessity of bond or other security in the event of a breach or threatened breach by him of this Agreement. Furthermore and notwithstanding anything to the contrary in this Agreement, the Company shall, in addition to any other rights or remedies available to it, at law, in equity, or otherwise, be entitled to reimbursement of court costs, reasonable attorneys' fees, and any other expenses reasonably incurred by it or its affiliates as a result of a breach or threatened breach of this agreement by Executive.

f. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be

deemed to be an original copy of this Agreement, and all of which, when taken together, shall be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for any purpose whatsoever.

g. Costs. Except as provided in Section 12(e) above or except as provided below, if any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, each party shall bear its own costs and expenses (including, without limitation, attorneys' fees); provided, however, that in the event Executive incurs costs or expenses in connection with successfully enforcing this Agreement following a Change of Control, the Company shall reimburse the Executive for all such reasonable costs and expenses (including, without limitation, attorneys' fees).

h. Estate. If Executive dies prior to the expiration of the term of employment or during a period when monies are owing to him, any monies that may be due him from the Company under this Agreement as of the date of his death shall be paid to his estate as and when otherwise payable.

i. Assignment. The rights, duties and benefits to Executive hereunder are personal to him, and no such right, duty or benefit may be assigned by him without the prior written consent of the Company. The rights and obligations of the Company shall inure to the benefit and be binding upon it and its successors and assigns, which assignment shall not require the consent of Executive.

j. Binding Effect. This Agreement is binding upon and shall inure to the benefit of the parties hereto, their respective executors, administrators, successors, personal representatives, heirs and assigns permitted under subsection 12(i) above.

k. Third-Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or entity (other than affiliates of the Company as provided herein) any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

l. Waiver of Breach. The waiver by the Company or Executive of a breach of any provision of this Agreement by Executive or the Company may not operate or be construed as a waiver of any subsequent breach.

m. Construction. The parties agree that this Agreement was freely negotiated among the parties and that Executive has had the opportunity to consult with an attorney in negotiating its terms. Accordingly, the parties agree that this Agreement shall not be construed in favor of any party or against any party. The parties further agree that the headings and subheadings are for convenience of the parties only and shall not be given effect in the construction of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

IMPORTANT: READ CAREFULLY BEFORE SIGNING

"Company"

DELTA APPAREL, INC.

By:

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Name: Robert W. Humphreys

Title: President & CEO

"Executive"

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Herbert M. Mueller

## EMPLOYMENT AND NON-SOLICITATION AGREEMENT

THIS EMPLOYMENT AND NON-SOLICITATION AGREEMENT (the "Agreement"), dated as of September 30, 2003, is by and between DELTA APPAREL, INC., a Georgia corporation (the "Company"), and Martha M. Watson, a South Carolina resident ("Executive").

WHEREAS, Executive and the Company want to enter into a written agreement providing for the terms of Executive's employment by the Company, such agreement to replace and supersede that certain Employment and Non-Solicitation Agreement between Executive and the Company dated November 7, 2000 (the "Prior Agreement"); and

WHEREAS, Executive agrees that the Company's promises set out in this Agreement provide good and sufficient consideration for the promises of Executive set forth in this Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual covenants set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Employment. Executive agrees to continue his employment with the Company, and the Company agrees to employ Executive, on the terms and conditions set forth in this Agreement. This Agreement shall replace and supersede the Prior Agreement, the term of which shall end upon the signing of this Agreement. Executive agrees during the term of this Agreement to devote substantially all of his business time, efforts, skills and abilities to the performance of his duties to the Company and to the furtherance of the Company's business.

Executive's initial job title will be Vice President and Company Secretary and his duties will be those as are designated by the Chief Executive Officer of the Company.

2. Compensation.

(a) Base Salary. During the term of Executive's employment with the Company pursuant to this Agreement, the Company shall pay to Executive as compensation for his services an annual base salary of not less than \$129,500.00 ("Base Salary"). Executive's Base Salary will be payable in arrears in accordance with the Company's normal payroll procedures and will be reviewed annually and subject to upward adjustment at the discretion of the Company.

(b) Incentive Bonus. During the term of Executive's employment with the Company pursuant to this Agreement, Executive shall be entitled to participate in the Company's Short-Term Incentive Compensation Plan as in effect from time to time. Any cash compensation payable under this paragraph shall be referred to as "Incentive Compensation" in this Agreement.

(c) Executive Perquisites. During the term of Executive's employment with the Company pursuant to this Agreement, Executive shall be entitled to receive such executive perquisites and fringe benefits as are provided to the executives in comparable positions and their families under any of the Company's plans and/or programs in effect from time to time for which Executive is eligible to participate and to receive such other benefits as are customarily available to executives of the Company and their families, including, without limitation, vacations and life, medical and disability insurance.

(d) Tax Withholding. The Company shall have the right to deduct from any compensation payable to Executive under this Agreement social security (FICA) taxes and all federal, state, municipal or other taxes or charges as may now be in effect or that may hereafter be enacted or required.

(e) Expense Reimbursements. The Company shall pay or reimburse Executive for all reasonable business expenses incurred or paid by Executive in the course of performing his duties hereunder, including, but not limited to, reasonable travel expenses for Executive. As a condition to such payment or reimbursement, however, Executive shall maintain and provide to the Company reasonable documentation and receipts for such expenses.

3. Term. Unless sooner terminated pursuant to Section 4 of this

Agreement, and subject to the provisions of Section 5 hereof, the term of this Agreement (the "Term") shall commence as of the date hereof and shall continue until December 31, 2006.

4. Termination. Notwithstanding the provisions of Section 3 hereof, but subject to the provisions of Section 5 hereof, Executive's employment under this Agreement shall terminate as follows:

(a) Death. Executive's employment shall terminate upon the death of Executive; provided, however, that the Company shall continue to pay (in accordance with its normal payroll procedures) the Base Salary to Executive's estate for a period of six (6) months after the date of Executive's death if Executive is employed by the Company on date of his death.

(b) Termination for Cause. The Company may terminate Executive's employment at any time for "Cause" (as hereinafter defined) by delivering a written termination notice to Executive. For purposes of this Agreement, "Cause" shall mean any of the following: (i) Executive's commission of a felony or a crime involving moral turpitude; (ii) Executive's commission of an act constituting fraud, deceit or material misrepresentation with respect to the Company or any of its affiliates; (iii) Executive's embezzlement of funds or assets from the Company or any of its affiliates; (iv) evidence sufficient to conclude that Executive is addicted to any alcoholic, controlled or illegal substance or drug; (v) Executive's commission of any act or omission of gross negligence or willful misconduct in the performance of his duties to the Company; or (vi) Executive's failure to correct or cure any material breach of or default under this Agreement not described in any of the preceding clauses within ten (10) days after receiving written notice of such breach or default from the Company. Determinations pursuant to this section shall be made by the Compensation Committee of the Company's Board of Directors, if any, and otherwise by the Company's Chief Executive Officer.

(c) Termination Without Cause. The Company may terminate Executive's employment at any time for any or no reason by delivering a written termination notice to Executive.

(d) Termination by Executive. Executive may terminate his employment at any time by delivering sixty (60) days prior written notice to the Company; provided, however, that the terms, conditions and benefits specified in Section 5 hereof shall apply or be payable to Executive only if such termination occurs as a result of a material breach by the Company of any provision of this Agreement which breach is not cured within ten (10) days after the Chief Executive Officer of the Company receives from Executive a written notice detailing such breach.

(e) Termination Following Disability. In the event Executive becomes "disabled" (as defined in the Company's disability insurance policy as in effect on the date of such disability) and is unable to perform his material duties and responsibilities hereunder for a period of at least ninety (90) days in the aggregate during any one hundred twenty (120) consecutive day period, the Company may terminate Executive's employment by delivering a written termination notice to Executive. Notwithstanding the foregoing, Executive shall continue to receive his full Base Salary and benefits to which he is entitled under this Agreement for a period of six (6) months after the effective date of such termination.

(f) Payments. Following any expiration or termination of this Agreement or Executive's employment hereunder, and in addition to (but not in duplication of) any amounts owed pursuant to Section 5 hereof, the Company shall pay to Executive all amounts earned by Executive hereunder prior to the date of such expiration or termination.

(g) Non-Disparagement. Executive agrees that during and following the termination of his employment he will not publicly (or in a manner he reasonably should have expected to be made public) disparage or otherwise make negative comments regarding the Company, its employees or its affiliates, provided, however, that the foregoing shall in no way restrict the Executive from in good faith reporting any concerns that he may have to (i) any authority within the Company designated to receive complaints or concerns from employees, including, without limitation, the Company's Board of Directors or a committee thereof, or (ii) any regulator or other governmental authority with supervisory responsibility for the Company (including, without limitation, the Securities and Exchange Commission) or the Company's independent auditors.

6. Certain Termination Benefits. In the event that:

- (i) the provisions of Section 6 do not apply;
- (ii) either (y) the Company terminates Executive's employment without Cause pursuant to Section 4(c) or (z) Executive terminates his employment pursuant to Section 4(d) as a result of an uncured material breach by the Company of any provision of this Agreement; and
- (iii) the Executive executes and delivers the release contemplated in Section (f) below,

then in such case the Company will provide Executive the benefits described in subsection (a) below and, if and to the extent that Executive is eligible to participate in such plans, subsections (b) through (c) below.

(a) Base Salary and Incentive Compensation. For a period of twelve (12) months following the termination, the Company shall continue to pay to Executive (i) his Base Salary (as in effect as of the date of his termination) and (ii) Incentive Compensation (in an aggregate amount equal to the cash Incentive Compensation received by the Executive for the most recent fiscal year prior to his termination).

(b) Life and Group Disability Insurance. If and to the extent that the Company's plans in effect from time to time permit such coverage, the Company shall continue to provide Executive with the opportunity to obtain group life and disability insurance coverage for a period of twelve (12) months following termination at coverage levels and rates equal to those applicable to Executive immediately prior to such termination or, if different, as provided to other executive level employees during such twelve-month period.

(c) Medical Insurance. If and to the extent that the Company's plans in effect from time to time permit such coverage, the Company shall continue to provide Executive and his family with the opportunity to obtain group medical insurance coverage under the Company's medical plans (as the same may change from time to time) or other substantially similar health insurance for a period of twelve (12) months following termination at coverage levels and rates equal to those applicable to Executive immediately prior to such termination or, if different, as provided to other executive level employees during such twelve-month period or, at the Company's option, pay COBRA premiums during such twelve-month period.

(d) Offset. Any fringe benefits received by Executive in connection with any other employment accepted by Executive that are reasonably comparable, even if not necessarily as beneficial to Executive, to the fringe benefits then being provided by the Company pursuant to paragraphs (b) and (c) of this Section 5, shall be deemed to be the equivalent of such benefits, and shall terminate the Company's responsibility to continue providing the fringe benefits package, taken as a whole, then being provided by the Company pursuant to paragraphs (b) and (c) of this Section 5. The Company agrees that if Executive's employment with the Company is terminated, Executive shall have no duty to mitigate damages.

(e) Payment Default. Any amounts owed by the Company to Executive under this Section 5 that are not paid when due shall bear interest at a rate of 10% per annum.

(f) General Release. Acceptance by Executive of any amounts pursuant to this Section 5 shall constitute a full and complete release by Executive of any and all claims Executive may have against the Company, its officers, directors and affiliates, including, but not limited to, claims he might have relating to Executive's employment with the Company and cessation thereof; provided, however, that there may properly be excluded from the scope of such general release the following:

- (i) claims that Executive may have against the Company for reimbursement of ordinary and necessary business expenses incurred by him during the course of his employment;
- (ii) claims that may be made by the Executive for payment of Base Salary, bonuses, fringe benefits, stock upon

vesting of inactive stock awards, stock upon exercise of stock options properly due to him, or other amounts or benefits due to him under this Agreement;

(iii) claims respecting any matters for which the Executive is entitled to be indemnified under the Company's Certificate of Incorporation or By-laws or applicable law respecting third party claims asserted or third party litigation pending or threatened against the Executive; and

(iv) any claims prohibited by applicable law from being included in the release.

A condition to Executive's receipt of any amounts pursuant to this Section 5 shall be Executive's execution and delivery of a general release as described above. In exchange for such release, the Company shall, if Executive's employment is terminated without Cause, provide a release to Executive, but only with respect to claims against Executive that Executive identifies in writing to the Company at the time of such termination.

#### 6. Effect of Change of Control.

(a) If within one (1) year following a "Change of Control" (as hereinafter defined), Executive terminates his employment with the Company for "Good Reason" (as hereinafter defined) or the Company terminates Executive's employment for any reason other than Cause, death or disability (as defined in Section 4(e)), the Company shall pay to Executive: (i) an amount equal to one times the Executive's Base Salary as of the date of termination; and (ii) an

amount equal to the cash Incentive Compensation received by the Executive for the most recent fiscal year prior to his termination. In addition, the Company shall provide the Executive with out-placement assistance. In addition, the Company shall continue to provide the Executive with the opportunity to obtain coverage under the Company's various welfare and benefit plans, including retirement and group healthcare, dental and life in which Executive participates at the time of termination, for the period equal to twelve (12) months from the date of termination at coverage levels and rates substantially equal to those applicable to Executive immediately prior to such termination.

(b) "Change of Control" shall mean the date as of which: (i) there shall be consummated (1) any consolidation or merger of the Company other than a merger of the Company in which the holders of the Company's common stock immediately prior to the merger have the majority ownership of common stock of the surviving corporation immediately after the merger, or (2) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or (ii) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or (iii) any person (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act) of 30% of the Company's outstanding common stock; or (iv) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the entire Board of Directors of the Company shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period. Notwithstanding anything to the contrary herein, the consummation of the transactions contemplated by the Stock Purchase Agreement by and among the Company, M.J. Soffe Co., a North Carolina company ("Soffe"), and the shareholders of Soffe, shall not constitute or give rise to a "Change of Control" within the meaning of this Agreement.

(c) "Good Reason" shall mean any of the following actions taken by the Company without the Executive's written consent after a Change of Control:

(i) the assignment to the Executive by the Company of duties inconsistent with, or the reduction of the powers and functions associated with, the Executive's position, duties, responsibilities and status with the Company immediately prior to a Change of

Control or Potential Change of Control (as defined below), or an adverse change in Executive's titles or offices as in effect immediately prior to a Change of Control or Potential Change of Control, or any removal of the Executive from or any failure to re-elect Executive to any of such positions, except in connection with the termination of his employment for disability (as provided in Section 4(e)) or Cause or as a result of Executive's death, except to the extent that a change in duties relates to the elimination of responsibilities attendant to the Company's no longer being a publicly traded company;

- (ii) a reduction by the Company in the Executive's Base Salary as in effect on the date of a Change of Control or Potential Change of Control, or as the same may be increased from time to time during the term of his Agreement;
- (iii) the Company shall require the Executive to be based anywhere other than at or within a 25-mile radius of the Company's principal executive offices or the location where the Executive is based on the date of a Change of Control or Potential Change of Control, or if Executive agrees to such relocation, the Company fails to reimburse the Executive for moving and all other expenses reasonably incurred in connection with such move;
- (iv) a significant increase in Executive's required travel on behalf of the Company;
- (v) the Company shall fail to continue in effect any Company-sponsored plan or benefit that is in effect on the date of a Change of Control or Potential Change of Control (other than the Incentive Stock Award Plan or the Company's stock option plan) and pursuant to which Executive has received awards or benefits and that provides (A) incentive or bonus compensation, (B) fringe benefits such as vacation, medical benefits, life insurance and accident insurance, (C) reimbursement for reasonable expenses incurred by the Executive in connection with the performance of duties with the Company, or (D) retirement benefits such as a Internal Revenue Code Section 401(k) plan, except to the extent that such plans taken as a whole are replaced with substantially comparable plans;
- (vi) any material breach by the Company of any provision of this Agreement which is not cured within ten (10) days of the Company's receipt from Executive of notice thereof; and
- (vii) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company effected in accordance with the provisions of Section 12.

(d) "Potential Change of Control" shall mean the date as of which (i) the Company enters into an agreement the consummation of which, or the approval by shareholders of which, would constitute a Change of Control; (ii) proxies for the election of directors of the Board of Directors of the Company

are solicited by anyone other than the Company; (iii) any person (including, but not limited to, any individual, partnership, joint venture, corporation, association or trust) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change of Control; or (iv) any other event occurs which is deemed to be a Potential Change of Control by the Board of Directors of the Company and the Board adopts a resolution to the effect that a Potential Change of Control has occurred.

(e) In the event that (i) Executive would otherwise be entitled to the compensation and benefits described in Section 5 or 6(a) hereof ("Compensation Payments"), and (ii) the Company determines, based upon the advice of tax counsel, that, as a result of such Compensation Payments and any other benefits or payments required to be taken into account under the Internal Revenue Code of 1986, as amended (the "Code"), Section 280G(b)(2) ("Parachute Payments"), any of such Parachute Payments would be reportable by the Company as an "excess parachute payment" under Code Section 280G, such Compensation Payments shall be reduced to the extent necessary to cause the aggregate present value (determined in accordance with Code Section 280G and applicable regulations promulgated thereunder) of the Executive's Parachute Payments to equal 2.99 times the "base amount" as defined in Code Section 280G(b)(3) with respect to such Executive. However, such reduction in the Compensation Payments shall be made only if, in the opinion of such tax counsel, it would result in a larger Parachute Payment to the Executive than payment of the unreduced Parachute Payments after deduction in each case of tax imposed on and payable by the Executive under Section 4999 of the Code ("Excise Tax"). The value of any non-cash benefits or any deferred payment or benefit for purposes of this paragraph shall be determined by a firm of independent auditors selected by the Company.

(f) The parties hereto agree that the payments provided under Section 6(a) above are reasonable compensation in light of Executive's services rendered to the Company and that neither party shall assert that the payment of such benefits constitutes an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Code.

(g) Unless the Company determines that any Parachute Payments made hereunder must be reported as "excess parachute payments" in accordance with Section 6(e) above, neither party shall file any return taking the position that the payment of such benefits constitutes an "excess parachute payment" within the meaning of Section 280G(b)(1) of the Code.

7. Non-Competition. Executive agrees that during the Term and for a period of four months from the date of the termination of Executive's employment with the Company pursuant to Sections 4(b), 4(c), 4(d), 4(e) or 6 herein or for any other reason that results in the Executive being entitled to the benefits described in Section 5, he will not, directly or indirectly, compete with the Company by providing to any company that is in a "Competing Business" services substantially similar to the services provided by Executive at the time of termination. Competing Business shall be defined as any business that engages, in whole or in part, in the manufacturing or marketing of activewear tee shirts in the United States of America (the "Restricted Territory"), and Executive's employment function or affiliation is directly or indirectly in such business of activewear tee shirt manufacturing or marketing.

8. Non-Solicitation. For a period of two years after the later of the expiration of the Term or the termination or cessation of his employment with the Company for any reason whatsoever, Executive shall not, on his own behalf or on behalf of any other person, partnership, association, corporation, or other entity, (a) solicit or in any manner attempt to influence or induce any employee of the Company or its subsidiaries or affiliates (known by the Executive to be such) to leave the employment of the Company or its subsidiaries or affiliates (other than through general advertisements not directed at any particular employee or group of employees), nor shall he use or disclose to any person, partnership, association, corporation or other entity any information obtained while an employee of the Company concerning the names and addresses of the Company's employees, or (b) solicit, entice or induce any customer or supplier of the Company (or any actively sought customer or supplier of the Company) at the time of expiration or termination for or on behalf of any Competing Business in the Restricted Territory.

9. Non-Disclosure of Trade Secrets. During and prior to the Term of this Agreement, Executive has had access to and became familiar with and will have access to and become familiar with various trade secrets and proprietary and

confidential information of the Company and its affiliates, including, but not limited to, processes, computer programs, compilations of information, records, sales procedures, customer requirements, pricing techniques, customer lists, methods of doing business and other confidential information (collectively, referred to as "Trade Secrets") which are owned by the Company and/or its affiliates and regularly used in the operation of its or their business, and as to which the Company and/or its affiliates take precautions to prevent dissemination to persons other than certain directors, officers and employees. Executive acknowledges and agrees that the Trade Secrets (1) are secret and not known in the industry; (2) give the Company and/or its affiliates an advantage over competitors who do not know or use the Trade Secrets; (3) are of such value and nature as to make it reasonable and necessary to protect and preserve the confidentiality and secrecy of the Trade Secrets; and (4) are valuable, special and unique assets of the Company and/or its affiliates, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company and/or its affiliates. Executive may not use in any way or disclose any of the Trade Secrets, directly or indirectly, either during the Term or at any time after the expiration of the Term or the termination of Executive's employment with the Company for any reason whatsoever, except as required in the course of his employment under this Agreement, as required in connection with a judicial or administrative proceeding, or if the information becomes public knowledge other than as a result of an unauthorized disclosure by the Executive. All files, records, documents, information, data and similar items relating to the business of the Company and/or its affiliates, whether prepared by Executive or otherwise coming into his possession, will remain the exclusive property of the Company and/or its affiliates (as the case may be) and may not be removed from the premises of the Company under any circumstances without the prior written consent of the Board of Directors of the Company and/or its affiliates (as the case may be) (except in the ordinary course of business during Executive's period of active employment under this Agreement), and in any event must be promptly delivered to the Chief Executive Officer of the Company upon termination of Executive's employment with the Company. Executive agrees that upon his receipt of any subpoena, process or other request to produce or divulge, directly or indirectly, any Trade Secrets to any entity, agency, tribunal or person, Executive shall timely notify and promptly hand deliver a copy of the subpoena, process or other request to the Board of Directors of the Company. For this purpose, Executive irrevocably nominates and appoints the Company (including any attorney retained by the Company), as his true and lawful attorney-in-fact, to act in Executive's name, place and stead to perform any act that Executive might perform to defend and protect against any disclosure of any Trade Secrets. The rights granted to the Company and/or its affiliates in this Section 9 are intended to be in addition to and not in replacement of any protection of trade secrets provided by equity, any statute, judicially created law or other agreement.

10. Remedies. In the event that Executive violates any of the provisions of Sections 7, 8 or 9 hereof (the "Protective Covenants") or fails to provide the notice required by Section 4(d) hereof, in addition to any other remedy that may be available at law, in equity or hereunder, the Company shall be entitled to receive from Executive the profits, if any, received by Executive upon exercise of any Company granted stock options or incentive stock awards or upon lapse of the restrictions on any grant of restricted stock to the extent such options or rights were exercised, or such restrictions lapsed, subsequent to the commencement of the six-month period prior to the termination of Executive's employment. In addition, Executive acknowledges and agrees that any breach of a Protective Covenant by him will cause irreparable damage to the Company and/or its affiliates, the exact amount of which will be difficult to determine, and that the remedies at law for any such breach will be inadequate. Accordingly, Executive agrees that, in addition to any other remedy that may be available at law, in equity or hereunder, the Company, and/or its affiliates shall be entitled to specific performance and injunctive relief, without posting bond or other security, to enforce or prevent any violation of any of the Protective Covenants by him.

11. Severability. The parties hereto intend all provisions of this Agreement to be enforced to the fullest extent permitted by law. The provisions of this Agreement are severable. The covenants on the part of the Executive contained in the Protective Covenants shall be construed as independent covenants and agreements of the Executive, independently supported by good and adequate consideration, shall be construed independently of the other provisions in this Agreement and shall survive this Agreement. The existence of any claim or cause of action of Executive against the Company or any of its affiliates, whether predicated on this Agreement or otherwise, shall not constitute a

defense to the enforcement by the Company or its affiliates of the covenants of Executive contained in this Agreement. The parties in no way intend to include a provision that contravenes public policy. Therefore, if any of the provisions, clauses, sentences, or paragraphs, or portions ("provisions") of this Agreement is unlawful, against public policy, or otherwise declared void or unenforceable, such provision shall be deemed excluded from this Agreement, which shall in all other respects remain in effect. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added as part of this Agreement a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable. If any Court should construe any portion of this Agreement to be too broad to prevent enforcement to its fullest extent then such portion shall be enforced to the maximum extent that the Court finds reasonable and enforceable.

## 12. Miscellaneous.

n. Notices. Any notices, consents, demands, requests, approvals and other communications to be given

under this Agreement by either party to the other must be in writing and must be either (i) personally delivered, (ii) mailed by registered or certified mail, postage prepaid with return receipt requested, (iii) delivered by reputable overnight express delivery service or reputable same-day local courier service, or (iv) delivered by telex or facsimile transmission, with confirmed receipt, to the address set forth below, or to such other address as may be designated by the parties from time to time in accordance with this Section 12(a):

If to the Company:

Delta Apparel, Inc.  
2750 Premiere Parkway  
Suite 100  
Duluth, Georgia 30047  
Attn: Chief Executive Officer  
Fax No.: (678) 775-6999

If to Executive:

Martha M. Watson  
135 Senate Street  
Townville, South Carolina 29689

Notices delivered personally or by overnight express delivery service or by local courier service are deemed given as of actual receipt. Mailed notices are deemed given three (3) business days after mailing. Notices delivered by telex or facsimile transmission are deemed given upon receipt by the sender of the answer back (in the case of a telex) or transmission confirmation (in the case of a facsimile transmission).

o. Entire Agreement. This Agreement supersedes any and all other agreements, either oral or written, between the parties with respect to the subject matter of this Agreement and contains all of the covenants and agreements between the parties with respect to the subject matter of this Agreement.

p. Modification. No change or modification of this Agreement is valid or binding upon the parties, nor will any waiver, termination or discharge of any term or condition of this Agreement be so binding, unless confirmed in writing and signed by the parties to this Agreement.

q. Governing Law and Venue. The parties acknowledge and agree that this Agreement and the obligations and undertakings of the parties under this Agreement will be performable in Georgia. This Agreement is governed by, and construed in accordance with, the laws of the State of Georgia without giving consideration to the conflict of laws provisions thereof. If any action is brought to enforce or interpret this Agreement, the parties consent to the jurisdiction and venue of the Federal District Court for the Northern District of Georgia and any state or superior court located in Fulton or Gwinnett Counties, Georgia.

r. Enforcement. Executive agrees that upon Executive's violation or threatened violation of any of the provisions of this Agreement, the Company shall, in addition to any other rights and remedies available to it, at law, in equity, or otherwise, be entitled to specific performance and injunctive relief including, without limitation, an injunction to be issued by any court of competent jurisdiction enjoining and restraining Executive from committing any violation or threatened violation of the provisions of this Agreement and Executive consents to the issuance of such injunction without the necessity of bond or other security in the event of a breach or threatened breach by him of this Agreement. Furthermore and notwithstanding anything to the contrary in this Agreement, the Company shall, in addition to any other rights or remedies available to it, at law, in equity, or otherwise, be entitled to reimbursement of court costs, reasonable attorneys' fees, and any other expenses reasonably incurred by it or its affiliates as a result of a breach or threatened breach of this agreement by Executive.

s. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement, and all of which, when taken together, shall be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall

constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for any purpose whatsoever.

t. Costs. Except as provided in Section 12(e) above or except as provided below, if any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, each party shall bear its own costs and expenses (including, without limitation, attorneys' fees); provided, however, that in the event Executive incurs costs or expenses in connection with successfully enforcing this Agreement following a Change of Control, the Company shall reimburse the Executive for all such reasonable costs and expenses (including, without limitation, attorneys' fees).

u. Estate. If Executive dies prior to the expiration of the term of employment or during a period when monies are owing to him, any monies that may be due him from the Company under this Agreement as of the date of his death shall be paid to his estate as and when otherwise payable.

v. Assignment. The rights, duties and benefits to Executive hereunder are personal to him, and no such right, duty or benefit may be assigned by him without the prior written consent of the Company. The rights and obligations of the Company shall inure to the benefit and be binding upon it and its successors and assigns, which assignment shall not require the consent of Executive.

w. Binding Effect. This Agreement is binding upon and shall inure to the benefit of the parties hereto, their respective executors, administrators, successors, personal representatives, heirs and assigns permitted under subsection 12(i) above.

x. Third-Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other person or entity (other than affiliates of the Company as provided herein) any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

y. Waiver of Breach. The waiver by the Company or Executive of a breach of any provision of this Agreement by Executive or the Company may not operate or be construed as a waiver of any subsequent breach.

z. Construction. The parties agree that this Agreement was freely negotiated among the parties and that Executive has had the opportunity to consult with an attorney in negotiating its terms. Accordingly, the parties agree that this Agreement shall not be construed in favor of any party or against any party. The parties further agree that the headings and subheadings are for convenience of the parties only and shall not be given effect in the construction of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

IMPORTANT: READ CAREFULLY BEFORE SIGNING

"Company"

DELTA APPAREL, INC.

By:

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Name: Robert W. Humphreys

Title: President & CEO

"Executive"

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Martha M. Watson

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS  
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert W. Humphreys, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Delta Apparel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2003

/s/ Robert W. Humphreys

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President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, AS  
ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Herbert M. Mueller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Delta Apparel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 31, 2003

/s/ Herbert M. Mueller

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Vice President and Chief Financial Officer

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Robert W. Humphreys, the Chief Executive Officer of Delta Apparel, Inc. (the "Company"), hereby certifies that to the best of his knowledge:

1. The Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2003 of the Company, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 31, 2003.

/s/ Robert W. Humphreys

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Robert W. Humphreys  
President & Chief Executive Officer

A signed original of this written statement required by section 906 has been provided to Delta Apparel, Inc. and will be retained by Delta Apparel, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

For purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Herbert M. Mueller, the Chief Financial Officer of Delta Apparel, Inc. (the "Company"), hereby certifies that to the best of his knowledge:

1. The Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2003 of the Company, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 31, 2003.

/s/ Herbert M. Mueller

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Herbert M. Mueller  
Vice President & Chief Financial Officer

A signed original of this written statement required by section 906 has been provided to Delta Apparel, Inc. and will be retained by Delta Apparel, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.