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**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 June 27, 2015  
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.**

(Exact name of registrant as specified in its charter)

**GEORGIA**

(State or Other Jurisdiction of  
Incorporation or Organization)

**322 South Main Street  
Greenville, SC**

(Address of principal executive offices)

**58-2508794**

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

**29601**

(Zip Code)

**(864) 232-5200**

(Registrant's telephone number, including area code)

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of a "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a smaller reporting  
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of July 23, 2015, there were outstanding 7,849,188 shares of the registrant's common stock, par value of \$0.01 per share, which is the only class of outstanding common or voting stock of the registrant.

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**PART 1. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

**Delta Apparel, Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(Amounts in thousands, except share amounts and per share data)  
(Unaudited)

	June 27, 2015	September 27, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 360	\$ 612
Accounts receivable, less allowances of \$3,487 and \$3,159, respectively	66,496	68,802
Income tax receivable	—	1,360
Inventories, net	149,399	162,188
Prepaid expenses and other current assets	5,010	4,534
Deferred income taxes	6,665	12,152
Total current assets	227,930	249,648
Property, plant and equipment, net of accumulated depreciation of \$79,176 and \$75,801, respectively	38,121	41,005
Goodwill	36,729	36,729
Intangibles, net	22,503	23,500
Noncurrent deferred income taxes	166	—
Other assets	3,578	3,696
Total assets	\$ 329,027	\$ 354,578
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 50,103	\$ 57,719
Accrued expenses	20,654	20,167
Income tax payable	184	—
Current portion of long-term debt	7,590	15,504
Total current liabilities	78,531	93,390
Long-term debt, less current maturities	104,585	114,469
Deferred income taxes	—	3,399
Other liabilities	1,056	1,513
Contingent consideration	3,100	3,600
Total liabilities	\$ 187,272	\$ 216,371
Shareholders' equity:		
Preferred stock—\$0.01 par value, 2,000,000 shares authorized, none issued and outstanding	—	—
Common stock —\$0.01 par value, 15,000,000 shares authorized, 9,646,972 shares issued, and 7,877,683 and 7,877,674 shares outstanding as of June 27, 2015 and September 27, 2014, respectively	96	96
Additional paid-in capital	59,485	59,649
Retained earnings	103,473	99,622
Accumulated other comprehensive loss	(331)	(269)
Treasury stock —1,769,289 and 1,769,298 shares as of June 27, 2015 and September 27, 2014, respectively	(20,968)	(20,891)
Total shareholders' equity	141,755	138,207
Total liabilities and shareholders' equity	\$ 329,027	\$ 354,578

See accompanying Notes to Condensed Consolidated Financial Statements.

**Delta Apparel, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
(Amounts in thousands, except per share data)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net sales	\$ 120,525	\$ 123,534	\$ 328,947	\$ 338,004
Cost of goods sold	95,041	100,796	266,902	273,945
Gross profit	25,484	22,738	62,045	64,059
Selling, general and administrative expenses	19,641	21,063	59,821	62,199
Change in fair value of contingent consideration	(630)	75	(500)	200
Gain on sale of business	—	—	(7,704)	—
Other (income) expense, net	(424)	8	(579)	(91)
Operating income	6,897	1,592	11,007	1,751
Interest expense, net	1,528	1,471	4,547	4,384
Income (loss) before provision (benefit) from income taxes	5,369	121	6,460	(2,633)
Provision (benefit) from income taxes	951	(2,045)	2,607	(2,438)
Net income (loss)	\$ 4,418	\$ 2,166	\$ 3,853	\$ (195)
Basic earnings (loss) per share	\$ 0.56	\$ 0.27	\$ 0.49	\$ (0.02)
Diluted earnings (loss) per share	\$ 0.55	\$ 0.27	\$ 0.48	\$ (0.02)
Weighted average number of shares outstanding	7,889	7,903	7,887	7,909
Dilutive effect of stock options and awards	210	202	202	—
Weighted average number of shares assuming dilution	8,099	8,105	8,089	7,909

See accompanying Notes to Condensed Consolidated Financial Statements.

**Delta Apparel, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
(Amounts in thousands)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net income (loss)	\$ 4,418	\$ 2,166	\$ 3,853	\$ (195)
Net unrealized gain (loss) on cash flow hedges	67	(76)	(61)	87
Comprehensive income (loss)	\$ 4,485	\$ 2,090	\$ 3,792	\$ (108)

See accompanying Notes to Condensed Consolidated Financial Statements.

**Delta Apparel, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(Amounts in thousands)  
(Unaudited)

	Nine Months Ended	
	June 27, 2015	June 28, 2014
Operating activities:		
Net income (loss)	\$ 3,853	\$ (195)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	7,199	7,043
Amortization of deferred financing fees	375	263
Excess tax benefits from exercise of stock options	(2)	(27)
Provision for (benefit from) deferred income taxes	1,249	(3,600)
Gain on sale of The Game assets before transaction costs	(8,114)	—
Non-cash stock compensation	965	365
Change in the fair value of contingent consideration	(500)	200
Loss on disposal or impairment of property and equipment	20	25
Release of cash held in escrow	—	3,000
Changes in operating assets and liabilities:		
Accounts receivable	2,306	(1,422)
Inventories	6,703	(569)
Prepaid expenses and other assets	(511)	(1,465)
Other non-current assets	(233)	(11)
Accounts payable	(7,616)	2,210
Accrued expenses	126	(4,702)
Income tax payable/receivable	1,544	1,090
Other liabilities	(405)	827
Net cash provided by operating activities	<u>6,959</u>	<u>3,032</u>
Investing activities:		
Purchases of property and equipment, net	(4,230)	(7,696)
Proceeds from sale of The Game assets	14,913	—
Proceeds from sale of fixed assets	470	71
Net cash provided by (used in) investing activities	<u>11,153</u>	<u>(7,625)</u>
Financing activities:		
Proceeds from long-term debt	371,184	375,738
Repayment of long-term debt	(388,982)	(371,252)
Repayment of capital financing	(114)	—
Payment of deferred financing fees	(25)	—
Repurchase of common stock	(440)	(1,180)
Proceeds from exercise of stock options	21	931
Payment of withholding taxes on exercise of stock options	(10)	—
Excess tax benefits from exercise of stock options	2	27
Net cash (used in) provided by financing activities	<u>(18,364)</u>	<u>4,264</u>
Net decrease in cash and cash equivalents	(252)	(329)
Cash and cash equivalents at beginning of period	612	829
Cash and cash equivalents at end of period	<u>\$ 360</u>	<u>\$ 500</u>
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 3,639	\$ 3,435
Cash (received) paid during the period for income taxes, net of refunds received	\$ (218)	\$ 225
Non-cash financing activity - Shortfall to excess tax benefit pool	\$ 673	\$ —
Non-cash financing activity - Taxes accrued but not paid on exercise of stock options	\$ 105	\$ —

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 and Description of Business**

We prepared the accompanying interim condensed consolidated financial statements 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 U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. We believe these Condensed Consolidated Financial Statements consist of normal recurring adjustments considered necessary for a fair presentation. Operating results for the nine months ended June 27, 2015, are not necessarily indicative of the results that may be expected for our fiscal year ending October 3, 2015. Although our various product lines are sold on a year-round basis, the demand for specific products or styles reflects some seasonality, with sales in our June quarter generally being the highest and sales in our December quarter generally being the lowest. For more information regarding our results of operations and financial position, refer to the Consolidated Financial Statements and footnotes included in our Form 10-K for our fiscal year ended September 27, 2014, filed with the United States Securities and Exchange Commission ("SEC").

"Delta Apparel", the "Company", and "we", "us" and "our" are used interchangeably to refer to Delta Apparel, Inc. together with our domestic wholly-owned subsidiaries, including M.J. Soffe, LLC ("Soffe"), Junkfood Clothing Company ("Junkfood"), Salt Life, LLC (f/k/a To The Game, LLC) ("Salt Life"), Art Gun, LLC ("Art Gun"), and other international subsidiaries, as appropriate to the context.

Delta Apparel, Inc. is an international apparel design, marketing, manufacturing and sourcing company that features a diverse portfolio of lifestyle basics and branded activewear apparel and headwear. We specialize in selling casual and athletic products through a variety of distribution channels and distribution tiers, including specialty stores, boutiques, department stores, mid and mass channels, e-retailers, and the U.S. military. Our products are also made available direct-to-consumer on our websites at [www.soffe.com](http://www.soffe.com), [www.junkfoodclothing.com](http://www.junkfoodclothing.com), [www.saltlife.com](http://www.saltlife.com) and [www.deltaapparel.com](http://www.deltaapparel.com). We believe this diversified distribution allows us to capitalize on our strengths to provide casual activewear to consumers purchasing from most types of retailers.

We design and internally manufacture the majority of our products, which allows us to offer a high degree of consistency and quality controls as well as leverage scale efficiencies. One of our strengths is the speed with which we can reach the market from design to delivery. We have manufacturing operations located in the United States, El Salvador, Honduras and Mexico, and use domestic and foreign contractors as additional sources of production. Our distribution facilities are strategically located throughout the United States to better serve our customers with same-day shipping on our catalog products and weekly replenishments to retailers.

We were incorporated in Georgia in 1999 and our headquarters is located at 322 South Main Street, Greenville, South Carolina 29601 (telephone number: 864-232-5200). Our common stock trades on the NYSE MKT under the symbol "DLA". We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. Our 2015 fiscal year is a 53-week year and will end on October 3, 2015. Our 2014 fiscal year was a 52-week year and ended on September 27, 2014.

**Note B—Accounting Policies**

Our accounting policies are consistent with those described in our Significant Accounting Policies in our Form 10-K for the fiscal year ended September 27, 2014, filed with the SEC.

**Note C—New Accounting Standards**

Recently Adopted Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, *Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, ("ASU 2013-11"). This new guidance requires entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carryforward if said losses are expected to be utilized in offsetting liabilities accrued as the result of uncertain tax position(s) under certain other criteria. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists as of the reporting date and presumes disallowance of the tax position at the reporting date. This amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013. ASU 2013-11 is therefore effective for our fiscal year beginning September 28, 2014. However, as we have no liabilities related to uncertain tax positions, there is no effect on our current financial statements.

Standards Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, ("ASU 2014-09"). This new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for annual periods beginning after December 15, 2017, for public business entities and permits the use of either the retrospective or cumulative effect transition method. Early application is not permitted. ASU 2014-09 is therefore effective for our fiscal year beginning



September 30, 2018. We are evaluating the effect that ASU 2014-09 will have on our Consolidated Financial Statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, ("ASU 2015-11"). This new guidance requires an entity to measure inventory at the lower of cost and net realizable value. Currently, entities measure inventory at the lower of cost and market. ASU 2015-11 replaces market with net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured under last-in, first-out or the retail inventory method. ASU 2015-11 requires prospective adoption for inventory measurements for fiscal years beginning after December 15, 2016, and interim periods within those years for public business entities. Early application is permitted. ASU 2015-11 is therefore effective in our fiscal year beginning October 1, 2017. We are evaluating the effect that ASU 2015-11 will have on our Consolidated Financial Statements and related disclosures.

#### **Note D—Sale of The Game**

On March 2, 2015, we completed the sale of our The Game branded collegiate headwear and apparel business to David Peyser Sportswear, Inc., owner of MV Sport, Inc. for \$14.9 million. The business sold consisted of The Game branded products sold nationally in college bookstores and through team dealers. This transaction further strengthens our balance sheet and enables us to focus on areas of our business that are more strategic to our long-term goals. Our Salt Life business and corporate business, Kudzu, previously operated within To The Game, LLC (now Salt Life, LLC) were not included in the sale of the collegiate part of the business.

The sale included finished goods inventory of \$6.0 million, \$0.4 million in fixed assets, and \$0.1 million in other assets, along with the requirement that we indemnify up to \$0.3 million of legal costs associated with a particular litigation matter. The transaction did not include accounts receivable and certain undecorated apparel inventory, from which we anticipate receiving approximately \$6.0 million from the collection or sale of these assets in the normal course of our operations. We incurred \$0.4 million in direct selling expenses associated with the transaction. In addition, we incurred certain indirect costs associated with the transaction, including a \$0.8 million devaluation of the inventory not included in the sale and \$1.4 million in indirect incentive-based expenses.

The pre-tax gain on the sale of The Game assets, inclusive of the direct and indirect expenses, was \$5.6 million. The transaction and associated indirect expenses were recorded in our Condensed Consolidated Statements of Operations for the nine months ended June 27, 2015 as follows: (i) proceeds of \$14.9 million less costs of assets sold and direct selling costs resulting in a gain of \$7.7 million recorded as a gain on sale of business; (ii) \$1.4 million in indirect expenses recorded in our selling, general and administrative expense; and (iii) \$0.8 million of indirect expenses recorded in our cost of goods sold. For income tax purposes, this gain and associated indirect expenses were treated as a discrete item and resulted in \$2.2 million in income tax expense being recorded in our 2015 second quarter.

#### **Note E—Salt Life Acquisition**

On August 27, 2013, Salt Life, LLC (f/k/a To The Game, LLC) purchased substantially all of the assets of Salt Life Holdings, LLC ("Salt Life Holdings"), including all of its domestic and international trademark rights in the Salt Life brand (the "Salt Life Acquisition"). The purchase price for the Salt Life Acquisition consisted of: (i) a cash payment at closing of \$12,000,000, (ii) a deposit at closing of \$3,000,000 into an escrow account to be held to secure indemnification obligations of the seller under the asset purchase agreement and to be held for a period of up to fifty-four months following the closing, and (iii) delivery of two promissory notes in the aggregate principal amount of \$22,000,000. An additional amount may be payable in cash after the end of calendar year 2019 if financial performance targets involving the sale of Salt Life-branded products are met during the 2019 calendar year. At acquisition, we recorded an accrual of \$3.4 million for the fair value of the contingent consideration associated with the Salt Life Acquisition. We financed the cash portion of the purchase price through our Fourth Amended and Restated Loan and Security Agreement, as amended on August 27, 2013, September 4, 2013, September 26, 2014, and February 27, 2015. We expensed all acquisition-related costs, which totaled \$0.3 million, in the selling, general and administrative expense line item of our Condensed Consolidated Statements of Operations in the quarter ended September 28, 2013.

On December 6, 2013, we entered into an agreement (the "IMG Agreement") with IMG Worldwide, Inc. ("IMG") that provides for the termination of the Salt Life brand license agreements entered into between Delta Apparel and IMG (as agent on behalf of Salt Life Holdings) prior to the Salt Life Acquisition as well as the agency agreement entered into between Salt Life Holdings and IMG prior to the Salt Life Acquisition. In addition, the IMG Agreement provides that Delta Apparel and Salt Life Holdings are released from all obligations and liabilities under those agreements or relating to the Salt Life Acquisition. Pursuant to the IMG Agreement, Salt Life and IMG entered into a new, multi-year agency agreement, which has since been terminated, whereby IMG represented Salt Life with respect to the licensing of the Salt Life brand in connection with certain product and service categories. Salt Life agreed to pay IMG installments totaling \$3,500,000 to terminate these contractual arrangements. As a result, the above-referenced \$3,000,000 indemnification asset was released from escrow during the quarter ended December 28, 2013, and applied towards these payment obligations, along with additional amounts previously accrued for royalty obligations under the above-referenced Salt Life brand license agreements. During the twelve months ended September 27, 2014, and the nine months ended June 27, 2015, we made payments of \$2.1 million and \$0.6 million, respectively in accordance with the terms of the agreement. As of June 27, 2015, there were 4 quarterly installments of \$195 thousand remaining. We have recorded the fair value of the liability as of June 27, 2015, on our financial statements, with \$0.8 million in accrued expenses.

The Salt Life Acquisition continues our strategy of building lifestyle brands that take advantage of our creative capabilities, vertical manufacturing platform and international sourcing competencies. Prior to the Salt Life Acquisition, Salt Life, LLC (f/k/a To The Game, LLC) sold Salt Life-branded products under exclusive license agreements which began in January 2011. As such, the results of Salt Life sales have been included in our Condensed Consolidated Financial Statements since that time.

We accounted for the Salt Life Acquisition pursuant to ASC 805, *Business Combinations*, with the purchase price allocated based upon fair value. We have identified certain intangible assets associated with Salt Life, including tradenames and trademarks, license agreements, non-compete agreements and goodwill. The total amount of goodwill is expected to be deductible for tax purposes. Components of the intangible assets recorded at acquisition are as follows (in thousands, except economic life data):

		<u>Economic Life</u>
Goodwill	\$ 19,917	N/A
<b>Intangibles:</b>		
Tradename/trademarks	16,000	30 yrs
License agreements	2,100	15 – 30 yrs
Non-compete agreements	770	6.6 yrs
Total intangibles	<u>18,870</u>	
<b>Total goodwill and intangibles</b>	<u>\$ 38,787</u>	

#### **Note F—Inventories**

Inventories, net of reserves of \$8.1 million and \$7.1 million as of June 27, 2015, and September 27, 2014, respectively, consist of the following (in thousands):

	<u>June 27, 2015</u>	<u>September 27, 2014</u>
Raw materials	\$ 12,886	\$ 9,609
Work in process	19,387	15,859
Finished goods	117,126	136,720
	<u>\$ 149,399</u>	<u>\$ 162,188</u>

#### **Note G—Debt**

Delta Apparel, Soffe, Junkfood, Salt Life (f/k/a To The Game, LLC) and Art Gun are borrowers under the May 27, 2011, Fourth Amended and Restated Loan and Security Agreement (as subsequently amended, the "Amended Loan Agreement"), with the financial institutions named in the Amended Loan Agreement as Lenders, Wells Fargo Bank, National Association, as Administrative Agent, Bank of America, N.A., as Syndication Agent, Wells Fargo Capital Finance, LLC, as Sole Lead Arranger, and Wells Fargo Capital Finance, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Joint Bookrunners.

On September 26, 2014, Delta Apparel, Salt Life, Junkfood, Soffe and Art Gun entered into a Third Amendment to the Amended Loan Agreement with Wells Fargo Bank, National Association and the other lenders set forth therein (the "Third Amendment"). The Third Amendment amends certain definitions within the Amended Loan Agreement and eases borrowing base availability thresholds relating to a financial testing covenant during the period from September 28, 2014, through October 31, 2015. In addition, the definition of Fixed Charge Coverage Ratio was amended to adjust for expenses that may be incurred in connection with strategic initiatives and to exclude the \$9 million payment that was due on September 30, 2014, in connection with the Salt Life Acquisition.

On February 27, 2015, Delta Apparel, Salt Life, Junkfood, Soffe and Art Gun entered into a Consent and Fourth Amendment to the Amended Loan Agreement with Wells Fargo Bank, National Association and the other lenders set forth therein (the "Fourth Amendment"). Pursuant to the Fourth Amendment, the lenders consented to the sale by To The Game, LLC (now Salt Life, LLC) of certain of its assets related to its apparel and headwear business conducted under The Game brand and released those assets from the lenders' liens. The Fourth Amendment also adds certain definitions to the Amended Loan Agreement, including new definitions for an Adjusted Fixed Charge Coverage Ratio and a FCCR Reserve. In addition, the Fourth Amendment removed certain items from the Tranche A Borrowing Base.

Pursuant to the Amended Loan Agreement, the maximum line of credit under our U.S. revolving credit facility is \$145 million (subject to borrowing base limitations), and matures on May 27, 2017. Provided that no event of default exists, we have the option to increase the maximum credit available under the facility to \$200 million (subject to borrowing base limitations), conditioned upon the

Administrative Agent's ability to secure additional commitments and customary closing conditions. In fiscal year 2014, we paid \$0.4 million in financing costs in conjunction with the Third Amendment. No financing costs were paid in conjunction with the Fourth Amendment.

As of June 27, 2015, there was \$87.7 million outstanding under our U.S. revolving credit facility at an average interest rate of 2.5%, and additional borrowing availability of \$29.5 million. This credit facility includes a financial covenant requiring that if the amount of availability falls below the threshold amounts set forth in the Amended Loan Agreement, our Fixed Charge Coverage Ratio ("FCCR") (as defined in the Amended Loan Agreement) for the preceding 12-month period must not be less than 1.1 to 1.0. We were not subject to the FCCR covenant at June 27, 2015, because our availability was above the minimum required under the Amended Loan Agreement. At June 27, 2015, our FCCR was above the required 1.1 to 1.0 ratio and therefore we would have passed our financial covenant had we been subject to it. At June 27, 2015, and September 27, 2014, there was \$6.9 million and \$8.2 million, respectively, of retained earnings free of restrictions to make cash dividends or stock repurchases.

The Amended Loan Agreement contains a subjective acceleration clause and a "springing" lockbox arrangement (as defined in FASB Codification No. 470, *Debt* ("ASC 470")), whereby remittances from customers will be forwarded to our general bank account and will not reduce the outstanding debt until and unless a specified event or an event of default occurs. Pursuant to ASC 470, we classify borrowings under the Amended Loan Agreement as long-term debt.

In conjunction with the Salt Life Acquisition, we issued two promissory notes in the aggregate principal of \$22.0 million, which included a one-time installment of \$9.0 million that was due and paid as required on September 30, 2014, and quarterly installments commencing on March 31, 2015, with the final installment due on June 30, 2019. The promissory notes are zero-interest notes and state that interest will be imputed as required under Section 1274 of the Internal Revenue Code. We have imputed interest at 1.92% and 3.62% on the promissory notes that mature on June 30, 2016, and June 30, 2019, respectively. At June 27, 2015, the discounted value of the promissory notes was \$11.5 million.

We also maintain a credit facility with Banco Ficohsa, a Honduran bank. This credit facility is secured by a first-priority lien on the assets of our Honduran operations and the loan is not guaranteed by our U.S. entities. The installment portion of the credit facility carries a fixed interest rate of 7% for a term of seven years and is denominated in U.S. dollars. As of June 27, 2015, there was \$2.7 million outstanding on the installment portion of this loan. The revolving credit portion of the loan has an average interest rate of 8.0% with an ongoing 18-month term (expiring March 2019) and is denominated in U.S. dollars. The revolving credit portion of the loan requires minimum payments during each 6-month period of the 18-month term; however, the loan agreement permits additional drawdowns to the extent payments are made and certain objective covenants are met. The current revolving Honduran debt, by its nature, is not long-term, as it requires scheduled payments each six months. However, as the loan agreement permits us to re-borrow funds up to the amount repaid, subject to certain objective covenants, and we intend to re-borrow funds, subject to the objective covenants, the amounts have been classified as long-term debt. As of June 27, 2015, there was \$5.0 million outstanding under the revolving portion of the credit facility.

In October 2013, we entered into two new term loan agreements with Banco Ficohsa to finance our Honduran manufacturing expansion project. These loans are also not guaranteed by our U.S. entities and are secured by a first-priority lien on the assets of our Honduran operations. The first loan, an eighteen-month agreement for \$1.8 million, with a 7% fixed interest rate, is denominated in U.S. dollars, and has ratable monthly principal and interest payments due through the end of the term. As of June 27, 2015, this loan had been extinguished. The second loan, a seven-year agreement for \$4.2 million with a 7% fixed interest rate, is denominated in U.S. dollars and has ratable monthly principal and interest payments due through the end of the term. As of June 27, 2015, there was \$3.4 million outstanding under this loan agreement. The carrying value of these term loans approximates the fair value.

In April 2015, we entered into a new term loan agreement with Banco Ficohsa to finance further capital expansion at our Honduran facilities. This loan is not guaranteed by our U.S. entities and is secured by a first-priority lien on the assets of our Honduran operations. The loan is a seven-year agreement for \$2.0 million with an 8% fixed interest rate, is denominated in U.S. dollars, and has ratable monthly principal and interest payments due through the end of the term. The first payment was due in June, 2015. As of June 27, 2015, there was \$2.0 million outstanding under this loan agreement. The carrying value of this loan approximates the fair value.

#### **Note H—Selling, General and Administrative Expense**

We include in selling, general and administrative ("SG&A") expenses costs incurred subsequent to the receipt of finished goods at our distribution facilities, such as the cost of stocking, warehousing, picking, packing, and shipping goods for delivery to our customers. Distribution costs included in SG&A expenses totaled \$4.3 million and \$4.2 million for the three months ended June 27, 2015, and June 28, 2014, respectively. Distribution costs included in SG&A expenses for the nine months ended June 27, 2015, and June 28, 2014, were \$12.1 million and \$12.6 million, respectively. In addition, SG&A expenses include costs related to sales associates, administrative personnel, advertising and marketing expenses, royalty payments on licensed products and other general and administrative expenses. In the second quarter of fiscal 2015, we also incurred \$1.4 million of indirect expenses associated with the sale of The Game which were recorded in SG&A. See Note D—Sale of The Game, for more information on this transaction.

During the fourth quarter of fiscal year 2014, certain strategic initiatives were implemented to improve net profitability. This effort included streamlining our administrative workforce, layering our management structure and streamlining decision-making and information flow, as well as reducing duplicative and excess fixed cost. During the fourth quarter of fiscal year 2014, we recorded a total of \$4.0 million in SG&A expense associated with these strategic initiatives. As of September 27, 2014, approximately \$1.8 million of these expenses were accrued and reported on our Condensed Consolidated Balance Sheets. During the first nine months of fiscal year 2015, no additional expense was incurred in association with our strategic initiatives and \$1.1 million was disbursed during the first nine months of fiscal year 2015, leaving approximately \$0.7 million remaining accrued on our June 27, 2015, Condensed Consolidated Balance Sheets.

#### **Note I—Stock-Based Compensation**

On February 4, 2015, our shareholders re-approved the Delta Apparel, Inc. 2010 Stock Plan ("2010 Stock Plan") that was originally approved by our shareholders on November 11, 2010. The re-approval of the 2010 Stock Plan, including the material terms of the performance goals included in the 2010 Stock Plan, enables us to continue to grant equity incentive compensation awards that are structured in a manner intended to qualify as tax deductible, performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986. Since November 2010, no additional awards have been or will be granted under either the Delta Apparel Stock Option Plan ("Option Plan") or the Delta Apparel Incentive Stock Award Plan ("Award Plan"); instead, all stock awards have been and will continue to be granted under the 2010 Stock Plan. Under the 2010 Stock Plan, the Compensation Committee of our Board of Directors has the authority to determine the employees and directors to whom awards may be granted and the size and type of each award and manner in which such awards will vest. The awards available consist of stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units, and other stock and cash awards. The aggregate number of shares of common stock that may be delivered under the 2010 Stock Plan is 500,000 plus any shares of common stock subject to outstanding awards under the Option Plan or Award Plan that are subsequently forfeited or terminated for any reason before being exercised. The 2010 Stock Plan limits the number of shares that may be covered by awards to any participant in a given calendar year and also limits the aggregate awards of restricted stock, restricted stock units and performance stock granted in any given calendar year. If a participant dies or becomes disabled (as defined in the 2010 Stock Plan) while employed by or serving as a director, all unvested awards become fully vested. The Compensation Committee is authorized to establish the terms and conditions of awards granted under the 2010 Stock Plan, to establish, amend and rescind any rules and regulations relating to the 2010 Stock Plan, and to make any other determinations that it deems necessary.

Compensation expense is recorded on the SG&A expense line item in our Condensed Consolidated Statements of Operations over the vesting periods. During the three months ended June 27, 2015, we recognized \$0.5 million in stock-based compensation expenses. During the three months ended June 28, 2014, we recognized a reduction in stock-based compensation expense of \$0.2 million resulting from an adjustment of the number of shares expected to be awarded under certain performance based awards. During the nine months ended June 27, 2015, and June 28, 2014, we recognized \$0.9 million and \$0.2 million, respectively, in stock-based compensation expenses.

##### 2010 Stock Plan

As of June 27, 2015, there was \$3.9 million of total unrecognized compensation cost related to non-vested awards granted under the 2010 Stock Plan. This cost is expected to be recognized over a period of 3.5 years. No awards were granted under the 2010 Stock Plan during the quarter ended June 27, 2015. During the first nine months of fiscal year 2015, performance units and restricted stock units representing 169,000 and 355,000 shares, respectively, of our common stock were granted.

##### Option Plan

All options granted under the Option Plan have vested. As such, no expense was recognized during the nine months ended June 27, 2015, or for the nine months ended June 28, 2014. During the three months ended June 27, 2015, vested options representing 336,000 shares of our common stock were exercised, and the shares issued, in accordance with their respective agreements. During the nine months ended June 27, 2015, vested options representing 350,000 shares of our common stock were exercised, and the shares issued, in accordance with their respective agreements.

##### Award Plan

All awards granted under the Award Plan have vested and been exercised, and no awards remain outstanding.

#### **Note J—Purchase Contracts**

We have entered into agreements, and have fixed prices, to purchase yarn, natural gas, finished fabric, and finished apparel products. At June 27, 2015, minimum payments under these contracts were as follows (in thousands):

Yarn	\$ 22,651
Natural gas	81
Finished fabric	2,206
Finished products	20,900
	\$ 45,838

#### Note K—Business Segments

We operate our business in two distinct segments: branded and basics. Although the two segments are similar in their production processes and regulatory environments, they are distinct in their economic characteristics, products, marketing, and distribution methods. In fiscal year 2014, we reclassified our Art Gun business from the branded segment to the basics segment to better reflect that business's current operating characteristics.

The branded segment is comprised of our business units focused on specialized apparel to meet consumer preferences and fashion trends, and includes Soffe, Junkfood, and Salt Life. These branded embellished and unembellished products are sold primarily through specialty and boutique shops, upscale and traditional department stores, mid-tier retailers, sporting goods stores, and the U.S. military. Products in this segment are marketed under our lifestyle brands of Salt Life®, Soffe®, Intensity Athletics®, and Junk Food® as well as other labels. Until the sale of The Game collegiate and team dealer business on March 2, 2015, The Game® and American Threads labels were reported in this segment.

The basics segment is comprised of our business units primarily focused on garment styles characterized by low fashion risk, and includes our Activewear and Art Gun businesses. We market, distribute and manufacture knit apparel under the main brands of Delta Pro Weight® and Delta Magnum Weight® for sale to a diversified audience ranging from large licensing businesses to regional screen printers and small independent businesses. These products are primarily sold unembellished, but may be sold decorated through our screen print operations or through Art Gun, our digital print and fulfillment business servicing the ecommerce marketplace. We also manufacture private label products for major branded sportswear companies, retailers, corporate industry programs, e-retailers, and sports-licensed apparel marketers. Typically, these products are sold with value-added services such as hangtags, ticketing, hangers, and embellishment so that they are fully ready for retail.

Robert W. Humphreys, our chief operating decision maker, along with management, evaluate performance and allocate resources based on profit or loss from operations before interest, income taxes and special charges (“segment operating earnings (loss)”). Our segment operating earnings (loss) may not be comparable to similarly titled measures used by other companies. Intercompany transfers between operating segments are transacted at cost and have been eliminated within the segment amounts shown in the following table.

Information about our operations as of and for the three and nine months ended June 27, 2015, and June 28, 2014, by operating segment, is as follows (in thousands):

	Basics	Branded	Consolidated
<b>Three months ended June 27, 2015</b>			
Net sales	\$ 79,034	\$ 41,491	\$ 120,525
Segment operating income	5,532	1,365	6,897
Segment assets	169,017	160,010	329,027
<b>Three months ended June 28, 2014</b>			
Net sales	\$ 75,818	\$ 47,716	\$ 123,534
Segment operating income (loss)	1,861	(269)	1,592
Segment assets	180,248	178,382	358,630
<b>Nine months ended June 27, 2015</b>			
Net sales	\$ 208,102	\$ 120,845	\$ 328,947
Segment operating income	5,130	5,877	11,007
<b>Nine months ended June 28, 2014</b>			
Net sales	\$ 204,465	\$ 133,539	\$ 338,004
Segment operating income (loss)	5,358	(3,607)	1,751

The following reconciles the segment operating earnings to the Company's consolidated income (loss) before provision (benefit) from income taxes (in thousands):

	Three Months Ended		Nine Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Segment operating income	\$ 6,897	\$ 1,592	\$ 11,007	\$ 1,751
Unallocated interest expense	1,528	1,471	4,547	4,384
Consolidated income (loss) before provision (benefit) from income taxes	\$ 5,369	\$ 121	\$ 6,460	\$ (2,633)

#### Note L—Income Taxes

Our effective income tax provision for the nine months ended June 27, 2015, was 40.4%, compared to an effective tax benefit of 92.6% for the same period in the prior year and an effective tax benefit of 87.1% for the fiscal year ended September 27, 2014. During the second quarter of fiscal year 2015, we recognized a \$5.6 million pre-tax gain, including associated indirect expenses, on the sale of The Game assets. We accounted for this event as a discrete item for tax provision purposes, recording tax expense on the pre-tax gain, including associated indirect expenses, at the full applicable statutory rate. See Note D—Sale of The Game, for further information on this transaction. In addition, during the third quarter of fiscal year 2015, employee stock options were exercised and depleted our excess tax benefit pool, which resulted in \$0.3 million in income tax expense recorded in the quarter. Excluding the effect of these discrete items, the effective tax provision on normal operations for the nine months ended June 27, 2015, was 4.2%.

Based on our current projected pre-tax income and the anticipated amount of U.S. taxable income compared to profits in the offshore taxable and tax-free jurisdictions in which we operate, our estimated annual income tax rate for the fiscal year ending October 3, 2015, is expected to be approximately 20%, including the effect of the aforementioned discrete items. However, changes in the mix of U.S. taxable income compared to profits in tax-free jurisdictions can have a significant impact on our overall effective tax rate.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Tax years 2011 through 2013, according to statute and with few exceptions, remain open to examination by various state, local and foreign jurisdictions. Tax years 2012 through 2013 remain open to examination by the Internal Revenue Service.

#### Note M—Derivatives and Fair Value Measurements

From time to time, we may use interest rate swaps or other instruments to manage our interest rate exposure and reduce the impact of future interest rate changes. These financial instruments are not used for trading or speculative purposes. Outstanding instruments as of June 27, 2015, are noted below:

	Effective Date	Notational Amount	Fixed LIBOR Rate	Maturity Date
Interest Rate Swap	September 9, 2013	\$15 million	1.1700%	September 9, 2016
Interest Rate Swap	September 9, 2013	\$15 million	1.6480%	September 11, 2017
Interest Rate Swap	September 19, 2013	\$15 million	1.0030%	September 19, 2016
Interest Rate Swap	September 19, 2013	\$15 million	1.4490%	September 19, 2017

From time to time, we may purchase cotton option contracts to economically hedge the risk related to market fluctuations in the cost of cotton used in our operations. We do not receive hedge accounting treatment for these derivatives. As such, the associated realized and unrealized gains and losses would be recorded within cost of goods sold on the Condensed Consolidated Statements of Operations and the fair value of the cotton option contracts would be recorded in the prepaid and other current assets line item on our Condensed Consolidated Balance Sheets. We did not own any cotton option contracts as of June 27, 2015, or as of September 27, 2014.

FASB Codification No. 820, *Fair Value Measurements and Disclosures* (“ASC 820”), defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Assets and liabilities measured at fair value are grouped in three levels. The levels prioritize the inputs used to measure the fair value of the assets or liabilities. These levels are:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are less active.

- **Level 3** – Unobservable inputs that are supported by little or no market activity for assets or liabilities and includes certain pricing models, discounted cash flow methodologies and similar techniques.

The following financial assets (liabilities) are measured at fair value on a recurring basis (in thousands):

Period Ended	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Interest Rate Swaps</b>				
June 27, 2015	\$ (538)	—	\$ (538)	—
September 27, 2014	\$ (437)	—	\$ (437)	—
<b>Contingent Consideration</b>				
June 27, 2015	\$ (3,100)	—	—	\$ (3,100)
September 27, 2014	\$ (3,600)	—	—	\$ (3,600)

The fair value of the interest rate swap agreements were derived from discounted cash flow analysis based on the terms of the contract and the forward interest rate curves adjusted for our credit risk, which fall in Level 2 of the fair value hierarchy.

The Salt Life Acquisition includes contingent consideration payable in cash after the end of calendar year 2019 if financial performance targets involving the sale of Salt Life-branded products are met during the 2019 calendar year. We used the historical results and projected cash flows based on the contractually defined terms, discounted as necessary, to estimate the fair value of the contingent consideration for Salt Life at acquisition, as well as to remeasure the contingent consideration related to the acquisitions of Salt Life and Art Gun at each reporting period. Accordingly, the fair value measurement for contingent consideration falls in Level 3 of the fair value hierarchy.

At June 27, 2015, we had \$3.1 million accrued in contingent consideration related to the Salt Life Acquisition. This is a \$0.6 million reduction from the accrual at the end of the second quarter of fiscal year 2015, and a \$0.5 million reduction from the accrual at September 27, 2014. The reduction in the fair value of contingent consideration resulted from our current sales levels being lower than we originally anticipated and the reduced remaining time to the measurement period. We still expect sales in calendar year 2019 to approximate the expectations for calendar 2019 sales used in the valuation of contingent consideration at acquisition. Contingent consideration related to the acquisition of Art Gun remains de minimis.

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheets for derivatives related to our interest swap agreements as of June 27, 2015, and September 27, 2014:

	June 27, 2015	September 27, 2014
Deferred tax assets	207	—
Deferred tax liabilities	—	168
Other liabilities	(538)	(437)
Accumulated other comprehensive loss	\$ (331)	\$ (269)

Assets Measured at Fair Value on a Non-Recurring Basis

Intangible assets acquired in connection with the Salt Life Acquisition are identified by type in Note E—Salt Life Acquisition. These valuations included significant unobservable inputs (Level 3).

## **Note N—Legal Proceedings**

### Consumer Product Safety Commission

We previously received an inquiry from the U.S. Consumer Product Safety Commission (“Commission”) regarding a children's drawstring hoodie product sourced, distributed and sold by Junkfood, and its compliance with applicable product safety standards. The Commission subsequently investigated the matter, including whether Junkfood complied with the reporting requirements of the Consumer Product Safety Act (“CPSA”), and the garments in question were ultimately recalled. On or about July 25, 2012, Junkfood received notification from the Commission staff alleging that Junkfood knowingly violated CPSA Section 15(b) and that the staff will recommend to the Commission a \$900,000 civil penalty. We dispute the Commission's allegations.

On August 27, 2012, Junkfood responded to the Commission staff regarding its recommended penalty, setting forth a number of defenses and mitigating factors that could result in a much lower penalty, if any, ultimately imposed by a court should the matter proceed to litigation. While we will continue to defend against these allegations, we believe a risk of loss is probable. Based upon current information, including the terms of previously published Commission settlements and related product recall notices, should the Commission seek enforcement of the recommended civil penalty and ultimately prevail on its claims at trial we believe there is a range of likely outcomes between \$25,000 and an amount exceeding \$900,000, along with interest and the Commission's costs and fees. During the quarter ended June 30, 2012, we recorded a liability for what we believe to be the most likely outcome within this range, and this liability remains recorded as of June 27, 2015.

### California Wage and Hour Litigation

We were served with a complaint in the Superior Court of the State of California, County of Los Angeles, on or about March 13, 2013, by a former employee of our Delta Activewear business unit at our Santa Fe Springs, California distribution facility alleging violations of California wage and hour laws and unfair business practices with respect to meal and rest periods, compensation and wage statements, and related claims (the "Complaint"). The Complaint is brought as a class action and seeks to include all of our Delta Activewear business unit's current and certain former employees within California who are or were non-exempt under applicable wage and hour laws. The Complaint seeks injunctive and declaratory relief, monetary damages and compensation, penalties, attorneys' fees and costs, and pre-judgment interest. The discovery process in this matter is ongoing and the issue of class certification remains pending.

On or about August 22, 2014, we were served with an additional complaint in the Superior Court of the State of California, County of Los Angeles, by a former employee of Junkfood and two former employees of Soffe at our Santa Fe Springs, California distribution facility alleging violations of California wage and hour laws and unfair business practices the same or substantially similar to those alleged in the Complaint and seeking the same or substantially similar relief as sought in the Complaint. This complaint is brought as a class action and seeks to include all current and certain former employees of Junkfood, Soffe and a Soffe independent contractor within California who are or were non-exempt under applicable wage and hour laws. The discovery process in this matter is ongoing and the issue of class certification remains pending.

While we will continue to vigorously defend these actions and believe we have a number of meritorious defenses to the claims alleged, we believe a risk of loss is probable. Based upon current information, we believe there is a range of likely outcomes between approximately \$15,000 and \$775,000. During the transition period ended September 28, 2013, we recorded a liability for the most likely outcome within this range, and this liability remained recorded as of June 27, 2015. However, depending upon the scope and size of any certified class and whether any of the claims alleged ultimately prevail at trial, we could be required to pay amounts exceeding \$775,000.

### Other

In addition, at times we are party to various legal claims, actions and complaints. We believe that, as a result of legal defenses, insurance arrangements, and indemnification provisions with parties believed to be financially capable, such actions should not have a material effect on our operations, financial condition, or liquidity.

## **Note O—Repurchase of Common Stock**

As of January 23, 2013, our Board of Directors authorized management to use up to \$30.0 million to repurchase stock in open market transactions under our Stock Repurchase Program.

During the June quarter of fiscal years 2015 and 2014, we purchased 30,700 shares and 66,556 shares, respectively, of our common stock for a total cost of \$0.4 million and \$1.0 million, respectively. Through June 27, 2015, we have purchased 2,152,946 shares of our common stock for an aggregate of \$25.7 million since the inception of our Stock Repurchase Program. All purchases were made at the discretion of management and pursuant to the safe harbor provisions of SEC Rule 10b-18. As of June 27, 2015, \$4.3 million remained available for future purchases under our Stock Repurchase Program, which does not have an expiration date.

The following table summarizes the purchases of our common stock for the quarter ended June 27, 2015:



Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Dollar Value of Shares that May Yet Be Purchased Under the Plans
March 29, 2015 to May 2, 2015	—	\$ —	—	\$4.7 million
May 3, 2015 to May 30, 2015	—	\$ —	—	\$4.7 million
May 31, 2015 to June 27, 2015	30,700	\$ 14.35	30,700	\$4.3 million
Total	30,700	\$ 14.35	30,700	\$4.3 million

### Note P—License Agreements

We have entered into license agreements that provide for royalty payments on net sales of licensed products as set forth in the agreements. These license agreements are within our branded segment. We have incurred royalty expense (included in SG&A expenses) of approximately \$2.2 million and \$2.7 million in the June quarter of fiscal years 2015 and 2014, respectively. We incurred royalty expense of \$6.6 million and \$7.1 million for the nine months ended June 27, 2015, and June 28, 2014, respectively. The decline in royalty expense for the three and nine months ended June 27, 2015 compared to prior year is due to the sale of The Game branded collegiate headwear and apparel business to David Peyser Sportswear, in the March quarter. See Note D—Sale of The Game, for further information on this transaction.

At June 27, 2015, based on minimum sales requirements, future minimum royalty payments required under these license agreements were as follows (in thousands):

Fiscal Year	Amount
2015	\$ 340
2016	2,644
2017	93
2018	—
	<u>\$ 3,077</u>

### Note Q—Goodwill and Intangible Assets

Components of intangible assets consist of the following (in thousands):

	June 27, 2015			September 27, 2014			Economic Life
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value	
Goodwill	\$ 36,729	\$ —	\$ 36,729	\$ 36,729	\$ —	\$ 36,729	N/A
<b>Intangibles:</b>							
Tradename/trademarks	\$ 17,530	\$ (1,741)	\$ 15,789	\$ 17,530	\$ (1,281)	\$ 16,249	20 – 30 yrs
Customer relationships	7,220	(3,567)	3,653	7,220	(3,298)	3,922	20 yrs
Technology	1,220	(674)	546	1,220	(582)	638	10 yrs
License agreements	2,100	(191)	1,909	2,100	(113)	1,987	15 – 30 yrs
Non-compete agreements	1,287	(681)	606	1,287	(583)	704	4 – 8.5 yrs
Total intangibles	<u>\$ 29,357</u>	<u>\$ (6,854)</u>	<u>\$ 22,503</u>	<u>\$ 29,357</u>	<u>\$ (5,857)</u>	<u>\$ 23,500</u>	

Amortization expense for intangible assets was \$0.3 million for the three months ended June 27, 2015, and \$0.4 million for the three months ended June 28, 2014. Amortization expense for intangible assets was \$1.0 million for the nine months ended June 27, 2015, and \$1.1 million for the nine months ended June 28, 2014. Amortization expense is estimated to be approximately \$1.4 million for fiscal year 2015 and \$1.3 million for each of fiscal years 2016, 2017, 2018 and 2019.

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

### Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. We may from time to time make written or oral statements that are “forward-looking,” including statements contained in this report and other filings with the SEC, in our press releases, in oral statements, and in other reports to our shareholders. All statements, other than statements of historical fact, which address activities, actions, initiatives, events or developments that we expect or anticipate will or may occur in the future are forward-looking statements. 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 Form 10-Q are based on our expectations and are necessarily dependent upon assumptions, estimates and data that we believe 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 or actions to differ materially from those set forth in or implied by the forward-looking statements. The risks and uncertainties include, among others:

- the volatility and uncertainty of cotton and other raw material prices;
- the general U.S. and international economic conditions;
- the competitive conditions in the apparel industry;
- restrictions on our ability to borrow capital or service our indebtedness;
- the inability to successfully implement certain strategic initiatives;
- deterioration in the financial condition of our customers and suppliers and changes in the operations and strategies of our customers and suppliers;
- our ability to predict or react to changing consumer preferences or trends;
- pricing pressures and the implementation of cost reduction strategies;
- changes in economic, political or social stability at our offshore locations;
- our ability to attract and retain key management;
- the effect of unseasonable weather conditions on purchases of our products;
- significant changes in our effective tax rate;
- interest rate fluctuations increasing our obligations under our variable rate indebtedness;
- the ability to raise additional capital;
- the ability to grow, achieve synergies and realize the expected profitability of recent acquisitions;
- the volatility and uncertainty of energy and fuel prices;
- material disruptions in our information systems related to our business operations;
- data security or privacy breaches;
- significant interruptions within our manufacturing or distribution operations;
- changes in or our ability to comply with safety, health and environmental regulations;
- significant litigation in either domestic or international jurisdictions;
- the ability to protect our trademarks and other intellectual property;
- the ability to obtain and renew our significant license agreements;
- the impairment of acquired intangible assets;
- changes in ecommerce laws and regulations;
- changes in international trade regulations;
- changes in employment laws or regulations or our relationship with employees;
- cost increases and reduction in future profitability due to recent healthcare legislation;
- foreign currency exchange rate fluctuations;
- violations of manufacturing standards or labor laws, or unethical business practices by our suppliers or independent contractors;
- the illiquidity of our shares;
- price volatility in our shares and the general volatility of the stock market; and
- the costs required to comply with the regulatory landscape regarding public company governance and disclosure.

A detailed discussion of significant risk factors that have the potential to cause actual results or actions to differ materially from our expectations is described under the subheading "Risk Factors" in our Form 10-K for our fiscal year ended September 27, 2014, filed with the SEC. Any forward-looking statements in this Form 10-Q do not purport to be predictions of future events, actions or circumstances and may not be realized. Any forward-looking statements are made only as of the date of this Form 10-Q and we do not undertake publicly to update or revise the forward-looking statements even if it becomes clear that any such statements or any projected results will not be realized or that any contemplated actions or initiatives will not be implemented.

The risks described in our Form 10-K for our fiscal year ended September 27, 2014, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition, and/or operating results.

### Business Outlook

Delta Apparel had a good June quarter, making progress in a number of areas of our business. During the quarter, we not only turned the corner in terms of sales and net income growth, but we showed vast improvement in other areas such as gross margin expansion and general and administrative cost reductions, resulting in significant improvement in our operating margins. The strategic initiatives we began implementing a year ago have proved successful in regards to cost savings, efficiency gains, profit growth, and better service to our customers, and we believe the best is yet to come.

We continue to invest in areas of our business where we expect to yield high returns. The expansion in our Honduran textile facility, Ceiba Textiles, is underway. All of the equipment is on order and should be received before the end of the calendar year. We expect the equipment to be running in the first calendar quarter of 2016, and we should start seeing the benefits shortly thereafter. By extending our production capabilities into open-width fabrics we will reduce our reliance on purchased fabric, which should allow us to better serve our customers and expand our product offerings. In addition, we will be further leveraging our fixed costs of internal production. Overall, we expect to achieve an annual savings of approximately \$2 million from this investment.

Ecommerce is another area where we believe we can make investments which should yield high returns. Our ecommerce business continues to perform well. In the June quarter, we grew sales on our internal websites by 56%, with each of our direct-to-consumer sites seeing growth in excess of 20%. We continue to enrich our ecommerce presence, and recently added several new functions to further enhance the customer experience.

We are also making investments in ecommerce in our Art Gun business. Art Gun's facility boasts cutting-edge equipment and industry-leading proprietary software specifically geared to facilitate ecommerce business. Art Gun's digital printing capability complements Delta Activewear by providing greater opportunities for value-added services for our customers.

Sales in our Activewear business increased 3.6% over the prior year quarter. This was driven by a 12.7% increase in sale of our private label products. We continue to grow our catalog full package programs where we are providing our customers with value-added services, including decoration and retail packaging, on catalog garments. We have also had success in new product categories, including fleece and our Delta Dri performance products. In the June quarter, we saw double digit growth in each of these product categories compared to the prior year quarter. Activewear also achieved solid margin expansion, both sequentially and year-over-year, due to a stronger product mix that included more private label sales, greater efficiencies in manufacturing and operations, and the benefit of balanced selling prices with lower cotton costs.

During the quarter, we began moving Salt Life's distribution center from Phenix City, Alabama to Fayetteville, North Carolina. This allows us to leverage real estate we own instead of leasing distribution space. The distribution center will be specifically set up to distribute Salt Life products efficiently to better serve our customers. In addition, by having the distribution center where we are printing the Salt Life graphic tees, we should be able to significantly improve our cycle times and lower costs by avoiding freight expenses between facilities and duplicate handling of the product.

The move of the distribution center did cause disruption in shipping Salt Life products which resulted in a single-digit growth rate that is uncharacteristic for Salt Life. This is a temporary situation and we are not seeing any decline in the strong demand for Salt Life products; in fact, had the order backlog been shipped in June, Salt Life's growth rate in the third quarter would have been nearly 30%. Salt Life's margins remain strong, having expanded by about 300 basis points compared to the prior year quarter. Salt Life has received an overwhelmingly strong response to its new spring line. Our major regional and national retailers are adding new doors and expanding product categories. We feel confident that Salt Life will return to its traditional strong double-digit growth.

Junkfood, long known for its creativity and ingenuity, continues to build its direct-to-consumer business through its flagship store on Abbott Kinney Boulevard in Venice Beach. Junkfood also continued its strong growth in direct-to-consumer sales on its branded website. The website grew 22% in the June quarter compared to the prior year quarter and is up 61% year-to-date compared to last year. Junkfood's retail sales grew over 100% from the prior year June and increased sales over 30% from the March quarter.

We see the third quarter as a turning point for Soffe. Soffe sales were nearly flat compared to the prior year quarter and the business broke even for the first time in several quarters. The core Soffe short in various colors and patterns is trending well with consumers, and a number of major retailers are expanding doors with the short. We look forward to Soffe's new fall line on the retail floor for back-to-school and expect it to resonate well with customers. Soffe has a large consumer fan group and its direct-to-consumer sales continue to increase, with growth of 24% during the June quarter and 32% year-to-date, compared with the prior year.

We are excited about the positive trends we are seeing in each of our business units. We have completed a lot of work over the past year to improve Delta Apparel, and we are now seeing the results of our efforts. Sales have increased and margins have expanded, and the

bottom line has improved as we expected it would. We believe we have built a foundation that should provide steady growth and improved profitability for Delta Apparel.

### Results of Operations

Net sales for the 2015 June quarter were \$120.5 million compared to the prior year quarter net sales of \$123.5 million. While sales, after adjusting for the \$5 million revenue reduction due to the second quarter sale of *The Game* branded business, grew a modest 1.7%, based on current retail conditions, we are satisfied with this improving trend for our company. For the first nine months of fiscal year 2015, sales decreased by 2.7% to \$328.9 million, compared to \$338.0 million for the first nine months of fiscal year 2014. Of this decline, \$6.4 million is attributed to the sale of *The Game* branded business. Our direct-to-consumer and ecommerce sales represented 4.5% of total revenues for the fiscal year 2015 June quarter, a 140 basis point increase from the same period last year. For the nine-month period ended June 27, 2015, direct-to-consumer and ecommerce sales were 4.2% of total sales, a 150 basis point increase over the same period last year. Overall ecommerce growth for the third quarter was 56% compared to the prior year period, with sales on each of our direct-to-consumer sites up by double digits.

Gross margins continued to strengthen both on a sequential basis from the March quarter and year-over-year, expanding 260 basis points from the second quarter to 21.1% in the June quarter and with 270 basis point improvement year-over-year. Gross margins improved due to stable pricing, improved product mix, and a stronger customer mix.

SG&A expenses were \$19.6 million, or 16.3% of sales, for the quarter ended June 27, 2015, compared to \$21.1 million, or 17.1% of sales, in the prior year period. For the first nine months of fiscal year 2015, SG&A expenses were 18.2% of sales versus 18.4% in the same period of fiscal year 2014. This improvement stems from the ongoing cost saving measures we initiated last year which resulted in lower fixed compensation costs on reduced headcount, along with commission structure changes that were implemented this fiscal year, partially offset by increased advertising expenditures on our Salt Life and Soffe brands. In addition, fiscal year 2015 SG&A costs includes \$1.4 million of indirect incentive-based expenses recorded in the second fiscal quarter associated with the sale of *The Game* business. See Note D—Sale of The Game, for further information on this transaction.

Our gain on sale of business was \$7.7 million for the first nine months of fiscal year 2015. The gain on sale of business in fiscal year 2015 includes the \$14.9 million proceeds from the sale of *The Game* business less the assets sold and the direct liabilities resulting from, and selling costs associated with, that transaction. See Note D—Sale of The Game, for more information on this transaction.

Net interest expense for the third quarter of fiscal years 2015 and 2014 was \$1.5 million. For the first nine months of fiscal year 2015, interest expense totaled \$4.5 million, compared to \$4.4 million in the prior year.

Other income for the three months ended June 27, 2015, was \$0.4 million compared to \$8 thousand of expense in fiscal year 2014. The increase is due to an increase in income from our Honduran joint venture investment as well as sublease income. For the first nine months of fiscal years 2015 and 2014, other income was \$0.6 million and \$0.1 million, respectively.

Our effective income tax provision for the nine months ended June 27, 2015, was 40.4%, compared to an effective tax benefit of 92.6% for the same period last year. During the second quarter of fiscal year 2015, we recognized a \$5.6 million pre-tax gain, including associated indirect expenses, on the sale of *The Game* assets. We accounted for this event as a discrete item for tax provision purposes, recording tax expense on the pre-tax gain, including associated indirect expenses, at the full applicable statutory rate. See Note D—Sale of The Game, for further information on this transaction. In addition, during the third quarter of fiscal year 2015, employee stock options were exercised and depleted our excess tax benefit pool, which resulted in \$0.3 million in income tax expense recorded in the quarter. Excluding the effect of these discrete items, the effective tax provision on normal operations for the nine months ended June 27, 2015, was 4.2%. We benefit from having income in foreign jurisdictions that are either exempt from income taxes or have tax rates lower than the United States.

Our earnings for the quarter were \$4.4 million, or \$0.55 per diluted share. This compares with earnings of \$2.2 million, or \$0.27 per diluted share, in the prior year quarter. Earnings for the first nine months of fiscal year 2015 were \$3.9 million, or \$0.48 per diluted share, compared to a net loss of \$0.2 million, or \$0.02 per diluted share, in the prior year nine-month period.

At June 27, 2015, accounts receivable were \$66.5 million compared to \$70.1 million in the prior year quarter. Days sales outstanding ("DSO") increased to 55 days as of June 27, 2015, compared to 52 days in the prior year June, but declined from 56 days at March 28, 2015. The higher DSOs compared to the prior year have been attributable to a few large customers whose payments have been delayed. We do not believe the higher DSO represents a larger than normal credit risk.

Inventory levels decreased \$12.8 million from September 27, 2014, to \$149.4 million at June 27, 2015. The decrease from September 27, 2014, is due to the \$6.0 million in inventory sold in conjunction with the sale of *The Game* along with lower-cost inventories due to improved cotton, energy, and manufacturing costs.

Capital expenditures were \$1.8 million during the third quarter of fiscal year 2015, and \$4.2 million for the first nine months of fiscal year 2015. Our capital expenditures primarily related to machinery, equipment and information technology enhancements. Depreciation and amortization, including non-cash compensation, was \$2.9 million for the third quarter of fiscal year 2015, and \$8.2 million for the first nine months of fiscal year 2015.

Total debt at June 27, 2015, was \$112.2 million, compared with \$139.2 million a year ago. Our lower debt levels are the result of improved operating cash flows, including lower inventory levels, and reduced capital spending.

#### Branded Segment

Sales grew in all of our branded businesses during the quarter with the exception of Soffe, with net sales \$0.6 million below the prior year quarter. This, along with the removal of approximately \$5 million in revenue due to the sale of *The Game* business this past March, resulted in net sales for the branded segment of \$41.5 million compared with \$47.7 million for the 2014 third quarter. Junkfood sales were up slightly compared with the prior year quarter and continued their double-digit sales growth at specialty retailers, which offset some weakness in other channels. Although Salt Life had record sales growth in April, our ability to ship product slowed in May as we began the process of moving our distribution center from leased space in Phenix City, Alabama to owned real estate in Fayetteville, North Carolina. Due to temporary disruptions from this move, Salt Life had single digit sales growth during the June quarter that is uncharacteristic for Salt Life. Soffe sales were generally flat with the prior year, and we believe its sales have stabilized. For the first nine months of fiscal year 2015, net sales in our branded segment were \$120.8 million compared with \$133.5 million in the prior year period. The sale of *The Game* collegiate business in March, 2015, contributed \$6.4 million to the decline.

Gross margins in our branded segment for the June quarter increased 240 basis points from the prior year June quarter driven by gross margin expansion in Junkfood and Salt Life, and stable gross margins in Soffe. Gross margins in the first nine months of fiscal year 2015 increased 230 basis points over the prior year period. The gross margin expansion was seen across all business units with the exception of Soffe, which had a slight decline of 30 basis points.

Despite the sales declines from the prior year, branded segment operating income increased \$1.6 million over the prior year quarter. This increase was primarily due to improved gross margins. For the first nine months, operating income increased by \$9.5 million over fiscal year 2014. This increase was primarily due to the sale of *The Game* business generating a \$5.6 million pre-tax gain, including associated indirect expenses. Additionally, gross margins have expanded and general and administrative expenses have declined, driving improved results.

#### Basics Segment

Net sales in our basics segment were \$79.0 million in the third quarter, a 4.2% increase from \$75.8 million in the prior year period. Solid performances in both Activewear and Art Gun were the drivers of this improvement. Art Gun, our smallest and fastest-growing business unit, achieved a 26.2% sales increase over the prior year quarter. Delta Activewear sales were up 3.6% to \$76.2 million, driven by 12.7% growth in its private label business. Delta Apparel's catalog business maintained stable pricing throughout the quarter and improved its product mix with a greater variety of fashion basics and more programs with value-added services. For the first nine months of fiscal year 2015, net sales in our basics segment were \$208.1 million compared to \$204.5 million in the prior year period.

The basics segment experienced solid gross margin expansion during the 2015 third fiscal quarter, with a 430 basis point increase compared to the same period last year. This was due to stronger product mix, greater efficiencies in manufacturing and the benefit of balanced selling prices with lower-priced cotton.

Basics segment operating income increased \$3.7 million from the prior year quarter due to increased sales and gross margins. Operating income for the first nine months declined \$0.2 million over the prior year's first nine months

#### Liquidity and Capital Resources

Our current primary cash needs are for working capital, capital expenditures, and debt service, as well as to fund share repurchases under our Stock Repurchase Program.

##### *Operating Cash Flows*

Operating activities provided \$7.0 million in cash for the first nine months of fiscal year 2015 compared to \$3.0 million for the first nine months of 2014. The increase in operating cash flow in the first nine months of fiscal year 2015 compared to the prior year period was primarily due to increased earnings in the business along with a reduction in inventory, partially offset by increased payments to our suppliers.

##### *Investing Cash Flows*

Capital expenditures during the first nine months of fiscal year 2015 were \$4.2 million compared to \$7.7 million for the same period last year. Capital expenditures in both periods primarily related to the expansion of our textile operations, along with investments in our information technology systems. We anticipate our fiscal year 2015 capital expenditures to be approximately \$9 million, which will include approximately \$3 million for the expansion of textiles to include new products that should decrease purchased fabric and reduce costs by leveraging internal operations. During the first nine months of fiscal year 2015, investing cash flows also includes the \$14.9 million proceeds received from the sale of *The Game* assets. See Note D—Sale of The Game, for further information on this transaction.

##### *Financing Activities*

During the first nine months of fiscal year 2015, cash used by financing activities was \$18.4 million compared to \$4.3 million in cash provided by financing activities in the same period last year. The cash used in our financing activities during fiscal 2015 was primarily to lower our debt levels. In addition, during the June quarter, we repurchased 30,700 shares of Delta Apparel common stock at an average cost of \$14.35 per share for a total cost of \$0.4 million.

Based on our current expectations, we believe that the cash flow generated by our operations and funds available under our credit facility should be sufficient to service our debt payment requirements, satisfy our day-to-day working capital needs, and fund our planned capital expenditures and repurchase our shares. Any material deterioration in our results of operations, however, may result in the loss of the ability to borrow under our revolving credit facility and to issue letters of credit to suppliers, or may cause the borrowing availability under our facility to be insufficient for our needs. Availability under our credit facility is primarily a function of the levels of our accounts receivable and inventory, as well as the uses of cash in our operations. A significant deterioration in our accounts receivable or inventory levels could restrict our ability to borrow additional funds or service our indebtedness. Moreover, our credit facility includes a financial covenant that if the availability under our credit facility falls below the amounts specified in our credit agreement, our FCCR for the preceding 12-month period must not be less than 1.1 to 1.0. Although our availability at June 27, 2015, was above the minimum thresholds specified in our credit agreement, a significant deterioration in our business could cause our availability to fall below such thresholds, thereby requiring us to maintain the minimum FCCR specified in our credit agreement. As of June 27, 2015, our FCCR was above the minimum threshold specified in our credit agreement.

#### Purchases By Delta Apparel Of Its Own Shares

During the nine months ended June 27, 2015, we purchased 30,700 shares of our common stock for an aggregate amount of \$0.4 million (see Note O-Repurchase of Common Stock). As of June 27, 2015, there was \$4.3 million of our share repurchase authorization remaining. We evaluate current leverage, working capital requirements, our free cash flow outlook, stock valuation and future business opportunities to determine when we believe the repurchase of our stock is a sound investment opportunity that we can pursue without sacrificing future growth plans.

#### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which were prepared in accordance with U.S. GAAP. The preparation of our Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We base our estimates and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant estimates and assumptions relate to revenue recognition, accounts receivable and related reserves, inventory and related reserves, the carrying value of goodwill, and the accounting for income taxes.

A detailed discussion of critical accounting policies is contained in the Significant Accounting Policies included in Note 2 to the Audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 27, 2014, and there have been no changes in those policies since the filing of that Form 10-K with the SEC.

#### Environmental and Regulatory Matters

We are 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. Our plants generate very small quantities of hazardous waste, which are either recycled or disposed of off-site. Most of our plants are required to possess one or more environmental permits, and we believe that we are currently in material compliance with the requirements of those permits.

The environmental rules applicable to our business are becoming increasingly stringent and we incur capital and other expenditures annually to achieve compliance with environmental standards. We currently do not expect that the amount of expenditures required to comply with environmental laws will have a material adverse affect on our 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, while we believe that we are currently in material compliance with all applicable environmental requirements, the extent of our liability, if any, for past failures to comply with laws, regulations or permits applicable to our operations cannot be determined and could have a material adverse effect on our operations, financial condition and liquidity.

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

#### Commodity Risk Sensitivity

We have a supply agreement with Parkdale Mills, Inc. and Parkdale America, LLC (collectively "Parkdale") to supply our yarn requirements until December 31, 2015. Under the supply agreement, we purchase from Parkdale all of our yarn requirements for use in our manufacturing operations, excluding yarns that Parkdale does not manufacture or cannot manufacture due to temporary capacity constraints. The purchase price of yarn is based upon the cost of cotton plus a fixed conversion cost. Thus, we are subject to the commodity risk of cotton prices and cotton price movements, which could result in unfavorable yarn pricing for us. We fix the cotton prices as a component of the purchase price of yarn, pursuant to the supply agreement, in advance of the shipment of finished yarn from Parkdale. Prices are set according to prevailing prices, as reported by the New York Cotton Exchange, at the time we elect to fix specific cotton prices.

Yarn with respect to which we have fixed cotton prices at June 27, 2015, was valued at \$22.7 million, and is scheduled for delivery between July 2015 and December 2015. At June 27, 2015, a 10% decline in the market price of the cotton covered by our fixed price yarn would have had a negative impact of approximately \$1.6 million on the value of the yarn. This compares to what would have been a negative impact of \$1.1 million at our 2014 fiscal year-end based on the yarn with fixed cotton prices at September 27, 2014. The impact of a 10% decline in the market price of the cotton covered by our fixed price yarn would have been greater at June 27, 2015, than at September 27, 2014, due to increased commitments at June 27, 2015, compared to September 27, 2014, offset partially by lower cotton prices.

We may use derivatives, including cotton option contracts, to manage our exposure to movements in commodity prices. We do not designate our options as hedge instruments upon inception. Accordingly, we mark to market changes in the fair market value of the options in cost of goods sold in our Condensed Consolidated Statements of Operations. See Note M for further discussion on Derivatives and Fair Value Measurements.

If Parkdale's operations are disrupted and it is not able to provide us with our yarn requirements, we may need to obtain yarn from alternative sources. Although alternative sources are presently available, we may not be able to enter into short-term arrangements with substitute suppliers on terms as favorable as our current terms with Parkdale. In addition, the cotton futures we have fixed with Parkdale may not be transferable to alternative yarn suppliers. Because there can be no assurance that we would be able to pass along the higher cost of yarn to our customers, this could have a material adverse effect on our results of operations. Moreover, our current contract with Parkdale expires on December 31, 2015, and while we expect to either negotiate an extension agreement with Parkdale or engage an alternative supplier on comparable terms, our inability to do so could negatively affect our business, financial condition and results of operations.

#### Interest Rate Sensitivity

Our U.S. revolving credit facility provides that the outstanding amounts owed shall bear interest at variable rates. If the amount of outstanding floating rate indebtedness at June 27, 2015, under our U.S. revolving credit facility had been outstanding during the entire three months ended June 27, 2015, and the interest rate on this outstanding indebtedness was increased by 100 basis points, our expense would have increased by approximately \$69 thousand, or 4.5% of actual interest expense, during the quarter. This compares to an increase of \$362 thousand, or 6.3%, for the 2014 fiscal year based on the outstanding floating rate indebtedness at September 27, 2014, or an average of \$91 thousand per quarter. The dollar amount, as well as the percentage, of the increase in interest expense is lower as of June 27, 2015, primarily due to the lower floating rate debt level as of June 27, 2015, compared to September 27, 2014. 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 of floating rate indebtedness.

#### *Derivatives*

From time to time, we may use interest rate swaps or other instruments to manage our interest rate exposure and reduce the impact of future interest rate changes as described in Note M—Derivatives and Fair Value Measurements.

### **Item 4. Controls and Procedures**

#### Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to reasonably assure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission's requirements. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information that we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 27, 2015, and, based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective at the evaluation date.

#### Changes in Internal Control Over Financial Reporting

There was no change during the third quarter of fiscal year 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

See Note N—Legal Proceedings in Item 1, which is incorporated herein by reference.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### (c) Repurchases of Common Stock

See Note O—Repurchase of Common Stock and Note G—Debt, in Item 1, which are incorporated herein by reference.

### **Item 6. Exhibits**

#### Exhibits

- 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.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

## **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.

DELTA APPAREL, INC.  
(Registrant)

Date August 5, 2015

By: /s/ Deborah H. Merrill

Deborah H. Merrill  
Vice President, Chief Financial  
Officer and Treasurer



**EXHIBIT 31.1**

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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 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 officer(s) 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 the 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: August 5, 2015

/s/ Robert W. Humphreys  
Chairman and Chief Executive Officer

**EXHIBIT 31.2**

**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, Deborah H. Merrill, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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;
  - d) 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 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 officer(s) 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 the 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: August 5, 2015

/s/ Deborah H. Merrill

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Vice President, Chief Financial  
Officer and Treasurer

**EXHIBIT 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**

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 June 27, 2015, 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: August 5, 2015

/s/ Robert W. Humphreys

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Robert W. Humphreys

Chairman and Chief Executive Officer

This certification is being furnished solely to comply with the provisions of § 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the accompanying Report, including for purposes of Section 18 of the Exchange Act, or as a separate disclosure document. A signed original of this written certification required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written certification required by Section 906, has been provided to the Company and will be rendered by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 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**

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

1. The Quarterly Report on Form 10-Q for the quarterly period ended June 27, 2015, 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: August 5, 2015

/s/ Deborah H. Merrill

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Deborah H. Merrill  
Vice President, Chief Financial Officer  
and Treasurer

This certification is being furnished solely to comply with the provisions of § 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the accompanying Report, including for purposes of Section 18 of the Exchange Act, or as a separate disclosure document. A signed original of this written certification required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written certification required by Section 906, has been provided to the Company and will be rendered by the Company and furnished to the Securities and Exchange Commission or its staff upon request.