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

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Fiscal Year Ended October 1, 2016
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 1-15583

DELTA APPAREL, INC.

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

58-2508794
(I.R.S. Employer Identification No.)

322 South Main Street
Greenville, SC 29601
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (864) 232-5200

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01	NYSE MKT LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned filer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒.

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

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 "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 Act). Yes ☐ No ☒.

As of April 2, 2016, the aggregate market share of the registrant's voting stock held by non-affiliates of the registrant (based on the last sale price for such shares as quoted by the NYSE MKT) was approximately \$136.2 million.

The number of outstanding shares of the registrant's Common Stock as of November 15, 2016 was 7,579,255.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required in Part III of this Form 10-K shall be incorporated from the registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A for the registrant's 2016 Annual Meeting of Shareholders currently scheduled to be held on February 9, 2017.

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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 Securities and Exchange Commission (the “SEC”), in our press releases, and in other reports to our shareholders. All statements, other than statements of historical fact, which address activities, 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 Annual Report 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 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 or achieve the expected cost savings associated with 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 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 and 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 to differ materially from our expectations is described in Part 1 under the heading of “Risk Factors.” Any forward-looking statements do not purport to be predictions of future events or circumstances and may not be realized. Further, any forward-looking statements are made only as of the date of this Annual Report 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 strategic initiatives will not be implemented.

PART I

ITEM 1. BUSINESS

“Delta Apparel”, the “Company”, “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.

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. The 2016 and 2014 fiscal years were 52-week years that ended on October 1, 2016, and September 27, 2014, respectively. The 2015 fiscal year was a 53-week year that ended on October 3, 2015.

OVERVIEW

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, headwear and related accessory products. 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 and in our retail stores. 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 became a diversified branded apparel company through acquisitions that added well-recognized brands and licensed properties to our portfolio, expanded our product offerings and broadened our distribution channels and customer base.

On August 30, 2016, we purchased substantially all of the assets of COAST Apparel (“Coast”). The Coast acquisition continues our strategy of building lifestyle brands that take advantage of our creative capabilities, direct-to-consumer infrastructure, vertical manufacturing platform and sourcing competencies.

BUSINESS SEGMENTS

We operate our business in two distinct segments: basics and branded. 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.

The basics segment is comprised of our business units primarily focused on garment styles characterized by low fashion risk, and includes our Delta Activewear (which includes Delta Catalog and FunTees) and Art Gun business units. We market, distribute and manufacture unembellished knit apparel under the main brands of Delta Pro Weight® and Delta Magnum Weight® for sale to a diversified audience ranging from large licensed screen printers to small independent businesses. We also manufacture private label products for major branded sportswear companies, trendy regional brands, retailers, and sports licensed apparel marketers. Typically our private label products are sold with value-added services such as hangtags, ticketing, hangers, and embellishment so that they are fully ready for retail. Using digital print equipment and its proprietary technology, Art Gun embellishes garments to create private label, custom decorated apparel servicing the fast-growing e-retailer channels.

The branded segment is comprised of our business units which are focused on specialized apparel garments and headwear to meet consumer preferences and fashion trends, and includes our Salt Life, Junkfood, Soffe, and Coast business units as well as *The Game* business unit prior to its disposition on March 2, 2015. These branded embellished and unembellished products are sold through specialty and boutique shops, upscale and traditional department stores, mid-tier retailers, sporting goods stores, e-retailers and the U.S. military. Products in this segment are marketed under our lifestyle brands of Salt Life®, Junk Food®, Soffe®, and COAST®, as well as other labels. The results of the Coast business have been included in the branded segment since acquisition on August 30, 2016.

See Note 14 of the Notes to Consolidated Financial Statements for financial information regarding segment reporting, which information is incorporated herein by reference.

PRODUCTS

We specialize in the design, merchandising, sales, and marketing of a variety of casual and athletic products for men, women, juniors, youth and children at a wide range of price points through most distribution channels. We market fashion apparel garments, headwear

and accessories under our primary brands of Salt Life®, Junk Food®, Soffe® and COAST®, as well as other labels. We market our basic apparel garments under our Delta brand.

Salt Life is an authentic, aspirational and lifestyle apparel brand that embraces those who love the ocean and everything associated with it. From fishing, diving and surfing, to beach fun and sun-soaked relaxation, the Salt Life brand says "I live the Salt Life". Products consist of tee shirts, board shorts, technical fishing apparel, rash guards and performance clothing featuring our own trademarked UVAPOR fabrics. Salt Life's distribution includes surf shops, specialty stores, department stores, sporting goods and outdoor retailers, and direct-to-consumer through retail doors and ecommerce.

Junk Food emerged in 1998 as the original vintage t-shirt brand. Known for its soft, comfortable fabrics and witty art, the Junk Food brand is a celebrity favorite carried in the top stores throughout the world, including branded collaborations with Nordstrom, Gap Inc. and other notable retailers. Also a licensing powerhouse, Junkfood has distribution rights to numerous pop-culture properties across multiple categories, including rock & roll, fictional characters, movies, sports, and foods and beverages. The Junk Food brand continues to expand beyond its iconic tee shirt collections with new apparel categories, accessories, and headwear, showcased in its flagship retail store on Abbot Kinney in Venice, California. Junkfood's diversified business model includes both private and branded labels, with a portfolio that includes Junk Food®, Junk Food Art House, Wknd, Stray Heart®, K38®, Paint and Cloth®, Worn Rite®, Love + Art®, and True Vintage®.

Soffe is a lifestyle activewear brand that designs, produces, and markets products for men, women, juniors, and children. Soffe's "The Strength Is In Us" marketing campaign is targeted toward core consumers who lead active lifestyles and understand that, together, we can accomplish more than by ourselves. The women's product offerings are grounded in the brand's heritage in the cheerleading market and include a newly introduced performance segment that features technical fabrics as well as fun-fashion design influences. As a supplier to the military since 1946, the Soffe men's products are rooted in this military heritage. Core items include performance garments issued directly to enlisted soldiers which also have broad appeal to young men who lead an active lifestyle. By incorporating trend-leading fits and an overall fashion-on-the-field sensibility, Intensity by Soffe creates performance uniforms, practice gear, and accessories. Soffe has a diverse distribution network that includes all military branches, big-box sporting goods retailers, department stores, independent sporting goods retailers, team dealers, screen printers, schools and direct-to-consumer outlets.

Coast integrates the coastal experience of weekends and summers at the beach with everyday life throughout the year. Beginning with just a men's polo shirt, Coast Apparel has since expanded into a full line of traditional, sports-casual attire, headwear and accessories. Coast Apparel primarily markets direct-to-consumer through two retail stores, located in Greenville, South Carolina and Pawley's Island, South Carolina, and via its ecommerce site at www.coastapparel.com and can also be found at select independent retailers.

Delta offers a wide assortment of basic, high-quality apparel garments for the entire family under its primary brand names Delta Pro Weight® and Delta Magnum Weight®. Delta products are offered in a broad range of colors available in six-month infant to adult sizes up to 5X. The Pro Weight® line represents a diverse selection of mid-weight, 100% cotton silhouettes in a large color palette. The Magnum Weight® line is designed to give our customers a variety of silhouettes in a heavier-weight, 100% cotton fabric. In 2016, we broadened our fashion basics line with a snow heather french terry hoodie and zip hoodie. Our fleece and french terry products help Delta meet the seasonal demands of our diversified customer base. New for 2017, with the success of our Delta Dri brand, we are now expanding into a ladies line to accompany the existing mens and boys. In addition, we are adding a line of pepper heathers and tri-blends to further extend the fashion basics component of our line.

FunTees designs, markets and manufactures private label custom knit t-shirts primarily to major branded sportswear and lifestyle companies. The majority of this merchandise is manufactured, embellished and sold to our customers with a wide variety of packaging services so that products are shipped store-ready.

Art Gun is a leader in direct-to-garment printing, with one of the most highly-automated factory processes for delivering on-demand, direct-to-garment, digitally printed garments of all types. Art Gun prints individual, custom items and ships products to consumers in over 40 countries worldwide.

A key to the success of our businesses is our ability to anticipate and quickly respond to changing consumer preferences. Our art team reviews trend reports, concepts and color trends to keep our products and designs in style. This information is used by our in-house designers and merchandisers, along with our sales and marketing personnel, who review market trends, sales results and the popularity of our latest products to design new merchandise to meet the expected future demands of our consumers.

TRADEMARKS AND LICENSE AGREEMENTS

We own several well-recognized trademarks that are important to our business. Salt Life® is an authentic, aspirational brand that embraces those who love the ocean and everything associated with living the "Salt Life". Soffe® has stood for quality and value in the athletic and activewear market for more than sixty years and Junk Food® has been known as a leading vintage t-shirt brand since 1998. Our other registered trademarks include COAST®, Intensity Athletics®, Kudzu®, Pro Weight®, Magnum Weight®, and the Delta Design. Our trademarks are valuable assets that differentiate the marketing of our products. We vigorously protect our trademarks and other intellectual property rights against infringement.

We have distribution rights to other trademarks through license agreements. The Soffe business unit is an official licensee for major colleges and universities. Junkfood has rights to distribute trademarked apparel across athletics (including the NFL and NBA), music, entertainment, foods and beverages, and numerous other pop-culture categories. We also have license agreements for motorsports properties (including NASCAR), golf and various resort properties. Our license agreements are typically non-exclusive in nature and have terms that range from one to three years. Historically we have been able to renew our license agreements; however, the loss of certain license agreements could have a material adverse effect on our results of operations. Although we are not dependent on any single license, our license agreements collectively are of significant value to our branded segment.

SALES & MARKETING

Our sales and marketing function consists of both employed and independent sales representatives and agencies located throughout the country. In our branded segment, sales teams service specialty and boutique, upscale and traditional department store, sporting goods and outdoor retailer, and military customer bases. We also have an international presence with our Junk Food® products in Canada, Europe, Asia, and Dubai. Our brands leverage both in-house and outsourced marketing communications professionals to amplify their lifestyle statements. In our basics segment, we sell our knit apparel products primarily direct to large and small screen printers and into the promotional products markets. Our private label products are sold primarily to major branded sportswear companies and regional, trendy brands.

During fiscal year 2016, we shipped our products to approximately 11,000 customers, many of whom have numerous retail "doors". No single customer accounted for more than 10% of sales in fiscal years 2016, 2015 or 2014, and our strategy is to not become dependent on any single customer. Revenues attributable to sales of our products in foreign countries, as a percentage of our consolidated net sales, represented approximately 2% in fiscal years 2016, 2015 and 2014.

The majority of our apparel products are produced based on forecasts to permit quick shipments to our customers. Private label programs are generally made only to order or based on customer forecasts, and our headwear products are primarily sourced based on customer orders. We aggressively explore new ways to leverage our strengths and efficiencies to meet the quick-turn needs of our customers.

We have distribution facilities strategically located throughout the United States that carry in-stock inventory for shipment to customers, with most shipments made via third party carriers. To better serve customers, we allow products to be ordered by the piece, dozen, or full case quantity. Because a significant portion of our business consists of at-once replenishment and direct catalog orders, we believe that backlog order levels do not provide a general indication of future sales.

COMPETITION

We have numerous competitors with respect to the sale of apparel and headwear products in domestic and international markets, many of which have greater financial resources than we do.

We believe that competition within our branded segment is based primarily upon brand recognition, design, and consumer preference. We focus on sustaining the strong reputation of our brands by adapting our product offerings to changes in fashion trends and consumer preferences. We aim to keep our merchandise offerings fresh with unique artwork and new designs, and support the integrated lifestyle statement of our products through effective consumer marketing. We believe that our favorable competitive position stems from strong consumer recognition and brand loyalty, the high quality of our products, and our flexibility and process control, which drive product consistency. We believe that our ability to remain competitive in the areas of quality, price, design, marketing, product development, manufacturing, technology and distribution will, in large part, determine our future success.

Competition in our basics segment is generally based upon price, service, delivery time and quality, with the relative importance of each factor depending upon the needs of the particular customers and the specific product offering. These businesses are highly price competitive and competitor actions can greatly influence pricing and demand for our products. While price is still important in the private label market, quality and service are generally more important factors for customer choice. Our ability to consistently service the needs of our private label customers greatly impacts future business with these customers.

SEASONALITY

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 fiscal quarter typically being the highest and sales in our December fiscal quarter typically being the lowest. As we continue to expand our product offerings, the seasonality in our business has become less pronounced. The percentage of net sales by quarter for the year ended October 1, 2016, was 21%, 25%, 27% and 27% for the first, second, third, and fourth fiscal quarters, respectively. Consumer demand for apparel is cyclical and dependent upon the overall level of demand for soft goods, which may or may not coincide with the overall level of discretionary consumer spending. These levels of demand change as regional, domestic and international economic conditions change. Therefore, the distribution of sales by quarter in fiscal year 2016 may not be indicative of the distribution in future years.

MANUFACTURING

We have a vertically integrated manufacturing platform that supports both our basics and branded segments. Our manufacturing operations begin with the purchase of yarn and other raw materials from third-party suppliers. We manufacture fabrics in our leased textile facility located near San Pedro Sula, Honduras, and purchase fabric domestically and internationally to supplement our internal production. The manufacturing process continues at one of our six apparel manufacturing facilities where the products are ultimately sewn into finished garments. We either own these facilities or lease and operate them. These facilities are located domestically (two in North Carolina) and internationally (two in Honduras, one in El Salvador and one in Mexico). Our garments may also be embellished and prepared for retail sale (with any combination of services, including ticketing, hang tags, and hangers). The facilities that perform these operations are located domestically (one in Florida and one in North Carolina) and internationally (one in El Salvador and one in Mexico). In fiscal years 2016, 2015 and 2014, approximately 81%, 84% and 81%, respectively, of our manufactured products were sewn in company-operated locations. The remaining products were sewn by outside contractors located primarily in the Caribbean Basin.

At our 2016, 2015 and 2014 fiscal year-ends, our long-lived assets in Honduras, El Salvador and Mexico collectively comprised approximately 58%, 44%, and 44%, respectively, of our total net property, plant and equipment, with our long-lived assets in Honduras comprising 45%, 33%, 35% of the total, respectively. See Item 1A. Risk Factors for a description of risks associated with our operations located outside of the United States.

To supplement our internal manufacturing platform, we purchase fabric, undecorated products and full-package products from independent sources throughout the world. In fiscal years 2016, 2015 and 2014, we sourced approximately 15%, 16%, and 19%, respectively, of our products from third parties.

RAW MATERIALS

We have a supply agreement with Parkdale Mills, Inc. and Parkdale America, LLC (collectively "Parkdale") to supply our yarn requirements until December 31, 2018. 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. 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.

We also purchase specialized fabrics that we currently do not have the capacity or capability to produce and may purchase other fabrics when it is cost-effective to do so. While these fabrics typically are available from various suppliers, there are times when certain yarns become limited in quantity, causing some fabrics to be difficult to source. This can result in higher prices or the inability to provide products to customers, which could negatively impact our results of operations. Dyes and chemicals are also purchased from several third party suppliers. While historically we have not had difficulty obtaining sufficient quantities of dyes and chemicals for manufacturing, the availability of products can change, which could require us to adjust dye and chemical formulations. In certain instances, these adjustments can increase manufacturing costs, negatively impacting our results of operations.

EMPLOYEES AND SOCIAL RESPONSIBILITY

As of October 1, 2016, we employed approximately 7,700 full time employees, of whom approximately 1,000 were employed in the United States. Approximately 1,220 employees at one of our facilities in San Pedro Sula, Honduras are party to a three-year collective bargaining agreement and approximately 1,700 employees at a separate facility in San Pedro Sula, Honduras are party to a different three-year collective bargaining agreement. We have historically conducted our operations without significant labor disruptions and believe that our relations with our employees are good. We have invested significant time and resources in attempting to cause the working conditions in all of our facilities to meet or exceed the standards imposed by governing laws and regulations. We have obtained WRAP (Worldwide Responsible Accredited Production) certification for all of our manufacturing facilities that we operate in Honduras, El Salvador and Mexico. Delta Apparel, Inc. is a participating company of the FLA (Fair Labor Association). This affiliation with FLA further enhances human rights compliance monitoring for our plants and our third party contractors. In addition, we have proactive programs to promote workplace safety, personal health, and employee wellness. We also support educational institutions and charitable organizations in the communities where we operate.

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 small quantities of hazardous waste, which are either recycled or disposed of off-site. Several of our plants are required to possess one or more environmental permits, and we believe that we are currently in compliance with the requirements of these permits.

The environmental regulations 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 these environmental standards will have a material adverse effect 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 compliance with all applicable environmental requirements, the extent of our liability, if any, for past failures to comply with laws, regulations and permits applicable to our operations cannot be determined and could have a material adverse effect on our operations, financial condition and liquidity.

RESEARCH & DEVELOPMENT

Although we continually seek new products and brands to take to market via our diverse distribution network and customer base, there were no material amounts expended on research and development in the fiscal years ended October 1, 2016, October 3, 2015, and September 27, 2014.

AVAILABLE INFORMATION

Our corporate internet address is www.deltaapparelinc.com. We make available free of charge on our website our SEC reports, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Section 16 filings and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information found on our website is not part of this, or any other, report that we file with or furnish to the SEC.

In addition, we will provide upon request, at no cost, paper or electronic copies of our reports and other filings made with the SEC. Requests should be directed to: Investor Relations Department, Delta Apparel, Inc., 322 South Main Street, Greenville, South Carolina 29601. Requests can also be made by telephone to 864-232-5200 extension 6621, or via email at investor.relations@deltaapparel.com.

ITEM 1A. RISK FACTORS

We operate in a rapidly changing, highly competitive business environment that involves substantial risks and uncertainties, including, but not limited to, the risks identified below. The following risks, as well as risks described elsewhere in this report or in our other filings with the SEC, could materially affect our business, financial condition or operating results and the value of Company securities held by investors and should be carefully considered in evaluating our Company and the forward-looking statements contained in this report or future reports. The risks described below are not the only risks facing Delta Apparel. Additional risks not presently known to us or that we currently do not view as material may become material and may impair our business operations. Any of these risks could cause, or contribute to causing, our actual results to differ materially from expectations. We expressly disclaim any obligation to publicly update or revise any risk factors, whether as a result of new information, future events or otherwise, except as required by law.

The price and availability of purchased yarn and other raw materials is prone to significant fluctuations and volatility. Cotton is the primary raw material used in the manufacture of our apparel products. As is the case with other commodities, the price of cotton fluctuates and is affected by weather, consumer demand, speculation on the commodities market, and other factors that are generally unpredictable and beyond our control. As described under the heading “Raw Materials”, the price of yarn purchased from Parkdale, our key supplier, is based upon the cost of cotton plus a fixed conversion cost. We set future cotton prices with purchase commitments as a component of the purchase price of yarn 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 enter into the commitments. Thus, we are subject to the commodity risk of cotton prices and cotton price movements, which could result in unfavorable yarn pricing for us. The Company and the apparel industry as a whole experienced unprecedented increases in cotton prices and price volatility in 2011 and 2012. We were unable to pass through to our customers the higher cost of cotton thereby negatively impacting the gross margins in our basics segment by \$16.2 million in our 2012 fiscal year.

In addition, if Parkdale’s operations are disrupted and Parkdale is not able to provide us with our yarn requirements, we may need to obtain yarn from alternative sources. We may not be able to enter into short-term arrangements with substitute suppliers on terms as favorable as our current terms with Parkdale, which could negatively affect our business.

Current economic conditions may adversely impact demand for our products. The apparel industry is cyclical and dependent upon the overall level of demand for soft goods, which may or may not coincide with the overall level of discretionary consumer spending. These levels of demand change as regional, domestic and international economic conditions change. These economic conditions include, but are not limited to, employment levels, energy costs, interest rates, tax rates, inflation, personal debt levels, and uncertainty about the future, with many of these factors outside of our control. Overall, consumer purchases of discretionary items tend to decline during recessionary periods when disposable income is lower. As such, deterioration in general economic conditions that creates uncertainty or alters discretionary consumer spending habits could reduce our sales. Sometimes, however, the timing of increases or decreases in consumer purchases of soft goods can differ from the timing of increases or decreases in the overall level of economic activity. Weakening sales may require us to reduce manufacturing operations to match our output to demand or expected demand. Reductions in our

manufacturing operations may increase unit costs and lower our gross margins, causing a material adverse effect on our results of operations.

The apparel industry is highly competitive, and we face significant competitive threats to our business. The market for athletic and activewear apparel and headwear is highly competitive and includes many new competitors as well as increased competition from established companies, some of which are larger or more diversified and may have greater financial resources than we do. Many of our competitors have competitive advantages, including larger sales forces, better brand recognition among consumers, larger advertising budgets, and greater economies of scale. If we are unable to compete successfully with our competitors, our business and results of operations will be adversely affected.

We may be restricted in our ability to borrow under our revolving credit facility or service our indebtedness. Significant operating losses or significant uses of cash in our operations could cause us to default on our asset-based revolving credit facility. We rely on our credit facility, as well as on cash generated by our operations, to fund our working capital and capital expenditure needs, to make acquisitions, to fund share repurchases under our Stock Repurchase Program and to pay dividends should we choose to do so in the future. Our working capital needs are generally greater in advance of the spring and summer selling seasons. 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 Fixed Charge Coverage Ratio ("FCCR") (as defined in our credit agreement) for the preceding 12-month period must not be less than 1.1 to 1.0. Although our availability at October 1, 2016, 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. Our credit facility also includes customary conditions to funding, representations and warranties, covenants, and events of default. The covenants include, among other things, limitations on asset sales, consolidations, mergers, liens, indebtedness, loans, investments, guaranties, acquisitions, dividends, stock repurchases, and transactions with affiliates. If an event of default under our credit facility occurred or became imminent, we may request our credit agreement lenders to provide a waiver. If we were unsuccessful in that endeavor, we could explore alternative sources of capital, whether debt or equity, which would likely be more expensive than the costs we incur under our credit facility. If we were unable to cure an un-waived event of default under our credit facility, we would be unable to borrow additional amounts under the facility, we could be unable to make acquisitions as well as fund share repurchases and pay dividends, and our lenders thereunder could accelerate our obligations under the agreement and foreclose on our assets subject to the liens in their favor. This circumstance would have a material adverse effect on our financial position and results of operations.

The inability to successfully implement or achieve the expected cost savings associated with certain strategic initiatives could adversely affect our financial position and results of operations. In response to our financial performance and results of operations during our 2014 fiscal year, as well as our near-term view of apparel market conditions at the time, we initiated a reorganization of our administrative structure at all levels to streamline decision-making and information flow as well as reduce duplicative and excess fixed costs. Moreover, in 2016 we completed a large-scale expansion and realignment effort across both our domestic and international manufacturing platforms that is intended to maximize production at our lower-cost facilities, eliminate additional duplicative fixed costs, and leverage the latest dyeing and finishing technology. In conjunction with this, we shuttered and sold our Maiden, North Carolina textile facility and began sourcing in-country fabric for use in our Mexico sew and screen-print facilities. We continue to evaluate other strategic initiatives focused on improving net profitability. The failure or inability to carry out any of these initiatives, any unexpected increases in the costs to carry out any of these initiatives, or the failure to achieve the cost savings or other financial or performance benefits expected from any of these initiatives could have a material adverse effect on our financial position or results of operations.

Deterioration in the financial condition of our customers or suppliers and changes in the operations and strategies of our customers or suppliers could adversely affect our financial position and results of operations. We extend credit to our customers, generally without requiring collateral. The extension of credit involves considerable judgment and is based on an evaluation of each customer's financial condition and payment history. We monitor credit risk exposure by periodically obtaining credit reports and updated financial statements on our customers. Deterioration in the economy, declines in consumer purchases of apparel, or disruption in the ability of our customers to access liquidity could have an adverse effect on the financial condition of our customers. During the past several years, various retailers and other customers have experienced significant difficulties, including restructurings, bankruptcies and liquidations. The inability of these retailers and other customers to overcome these difficulties may increase due to the current economic conditions. We maintain an allowance for doubtful accounts for potential credit losses based upon current conditions, historical trends, estimates and other available information. The size of this allowance is the result of our making judgments and determinations in the context of imperfect information, and in retrospect the allowance may turn out to have been insufficient. The inability to collect on sales to significant customers or a group of customers could have a material adverse effect on our financial condition and results of operations. Significant changes in the financial condition of any of our suppliers or other parties with which we do business could result in disruption to our business and have a material adverse effect on our financial condition and results of operations. In addition, significant changes in the retail or operational strategies employed by our customers may result in decreased sales of our products to such customers and could have a material adverse effect on our financial condition and results of operations. Likewise, significant changes in the operations of any of our suppliers or other

parties with which we do business could result in disruption to our business and have a material adverse effect on our financial condition and results of operations.

Our success depends, in part, on our ability to predict or effectively react to changing consumer preferences and trends. The success of our businesses depends on our ability to anticipate and respond quickly to changing consumer demand and preferences in apparel and headwear. We believe that our brands are recognized by consumers across many demographics. The popularity, supply and demand for particular products can change significantly from year to year based on prevailing fashion trends (particularly in our branded business) and on other factors and, accordingly, our ability to adapt to fashion trends in designing products is important to the success of our brands. If we are unable to quickly adapt to changes in consumer preferences in the design of products, our results of operations could be adversely affected. Moreover, because we and our customers project demand for our products based on estimated sales and fashion trends, the actual demand for our products sometimes falls short of what was projected. This can lead to higher inventory levels than desired. Excess inventory levels increase our working capital needs, and sometimes excess inventory must be sold at discounted prices, all of which could have an adverse impact on our business, financial condition and results of operations.

Our basics segment is subject to significant pricing pressures which may decrease our gross profit margins if we are unable to implement or achieve the expected cost savings associated with certain of our cost reduction strategies. We operate our basics segment in a highly competitive, price sensitive industry. Our strategy in this market environment is to be a low-cost producer and to differentiate ourselves by providing quality products and value-added services to our customers. In fiscal year 2012, we moved several functions within our private label business to our El Salvador facility to better serve customers through an enhanced and efficient product development process. In conjunction with this, we began a modernization of our decoration equipment to expand capabilities and lower costs. In addition, we announced in 2013 the consolidation of our domestic screen print operations as part of our continued focus on more efficient manufacturing and distribution strategies. This consolidation resulted in the closing of the Wendell, North Carolina decoration facility operated by our Soffe business unit and the consolidation of those operations within Soffe's Fayetteville, North Carolina facility. Further, in June 2014, we announced plans to consolidate some domestic fabric production for our basic, blank t-shirt products into our Ceiba Textiles facility in Honduras and subsequently made investments intended to modernize and provide more flexibility within that manufacturing platform. In fiscal 2016, we further realigned our manufacturing operations by expanding production at our offshore facilities and closing our Maiden, North Carolina textile facility. These initiatives, along with continual improvements in our production and delivery of products, are expected to lower our product costs and improve our results of operations. However, any unexpected increases in the costs to carry out these initiatives or the failure to achieve the cost savings expected from these initiatives could have a material adverse effect on our results of operations.

Our operations are subject to political, social, economic, and climate risks in Honduras, El Salvador and Mexico. The majority of our products are manufactured in Honduras, El Salvador and Mexico, with a concentration in Honduras. These countries from time to time experience political, social and economic instability, and we cannot be certain of their future stability. Instability in a country can lead to protests, riots and labor unrest. New government leaders can change employment laws, thereby increasing our costs to operate in that country. In addition, fire or natural disasters such as hurricanes, earthquakes, or floods can occur in these countries. Any of these political, social, economic or climatic events or conditions could disrupt our supply chain or increase our costs, adversely affecting our financial position and results of operations.

Our success depends upon the talents and continued contributions of our key management. We believe our future success depends on our ability to retain and motivate our key management, our ability to attract and integrate new members of management into our operations and the ability of all personnel to work together effectively as a team. Our success is dependent in significant part on our ability to retain existing, and attract additional, qualified personnel to execute our business strategy.

Our business is influenced by weather patterns. Our business is susceptible to unseasonable weather conditions. For example, extended periods of unusually warm temperatures during the winter season or cooler weather during the spring and summer seasons could render portions of our inventory incompatible with weather conditions and influence consumers to alter their apparel purchasing habits. Reduced sales volumes from extreme or prolonged unseasonable weather conditions could adversely affect our business and results of operations.

We currently pay income taxes at lower than statutory rates and may incur additional tax liability. We are subject to income tax in the United States and in foreign jurisdictions in which we generate net operating profits. We benefit from a lower overall effective income tax rate due to the majority of our manufacturing operations being located in foreign tax-free locations. Our U.S. legal entity contracts with our foreign subsidiaries to manufacture products on its behalf, with the intercompany prices paid for the manufacturing services and manufactured products based on an arms-length standard and supported by an economic study. We have concluded that the profits earned in the tax-free locations will be considered permanently reinvested. Thus, no U.S. deferred tax liability is recorded on these profits, causing our effective tax rate to be significantly below U.S. statutory rates. Our effective tax rate could be adversely affected by changes in the mix of earnings between the U.S. and tax-free foreign jurisdictions. In addition, changes to U.S. tax laws impacting how U.S. multinational corporations are taxed on foreign earnings or a need or requirement for us to remit tax-free earnings back to the U.S. could also have a material adverse effect on our tax expense and cash flow.

Our variable rate debt subjects us to interest rate risk that could cause our debt service obligations to increase significantly. The debt we incur under our asset-based revolving credit facility is at variable rates of interest, which exposes us to interest rate risk. If interest rates increase, our obligations on this variable rate indebtedness would increase even though the amount borrowed remained the same, and there would be a corresponding decrease in our net income and cash flows, including cash available for servicing our debt.

We may need to raise additional capital to grow our business. The rate of our growth, especially through acquisitions, depends, in part, on the availability of debt and equity capital. We may not be able to raise capital on terms acceptable to us or at all. If new sources of financing are required, but are insufficient or unavailable, we may be required to modify our growth and operating plans based on available funding, which could adversely affect our ability to grow the business.

We have expanded our business through acquisitions that could result in diversion of resources, an inability to integrate acquired operations and extra expenses. A part of our growth strategy has involved acquiring businesses that complement our existing business. The negotiation of potential acquisitions and integration of acquired businesses could divert our management's attention from our existing businesses, which could negatively impact our results of operations. In addition, if the integration of an acquired business is not successful or takes significantly longer than expected, or if we are unable to realize the expected benefits from an acquired business, it could adversely affect our financial condition and results of operations.

The price of energy and fuel costs are prone to significant fluctuations and volatility, which could adversely affect our results of operations. Our manufacturing operations require high inputs of energy, and therefore changes in energy prices directly impact our gross profits. In addition, we incur significant freight costs to transport goods between our offshore facilities and the United States, along with transportation expenses to ship products to our customers. The cost of energy and fuel fluctuates due to a number of factors outside of our control, including government policy and regulation and weather conditions. We continue to focus on methods that will reduce the amount of energy used in the manufacture of products to mitigate risks of fluctuations in the cost of energy. However, significant increases in energy and fuel prices may make us less competitive compared to others in the industry, which may have a material adverse effect on our financial position and results of operations.

Our business operations rely on our information systems and any material disruption or slowdown of our systems could cause operational delays. We depend on information systems to manage our inventory, process transactions, respond to customer inquiries, purchase, sell and ship goods on a timely basis and maintain cost-effective operations. We have invested significant capital and expect future capital expenditures associated with the integration of our information technology systems across our businesses. This process involves the replacement and consolidation of technology platforms so that our businesses are served by fewer platforms, resulting in operational efficiencies and reduced costs. Our inability to effectively convert our operations to the new systems could cause delays in product fulfillment and reduced efficiency in our operations. In addition, we may experience operational problems with our information systems as a result of system failures, "cyber attack", computer viruses, security breaches, disasters or other causes. Any material disruption or slowdown of our information systems could cause operational delays that could have a material adverse effect on our business and results of operations.

Data security and privacy breaches could lead to liability and reputational damage. Our business involves the regular collection and use of sensitive and confidential information regarding customers and employees. These activities are subject to contractual requirements and are highly regulated. Privacy and information security laws are complex and constantly changing. Compliance with these laws and regulations may result in additional costs due to new systems and processes, and our non-compliance could lead to legal liability. Further, the methods used by third parties to obtain unauthorized access change frequently and may not be anticipated or immediately detected. Thus, despite the security measures we may have in place, an actual or perceived information security breach, whether due to "cyber attack", computer viruses or human error, could occur. Such a breach of customer, employee or company data could attract media attention, damage our customer or other business relationships and reputation, result in lost sales, fines, lawsuits or other costs and involve the loss of confidential company information, any or all of which could have a material adverse effect on our business, financial condition and results of operations.

Our business could be harmed if we are unable to deliver our products to the market due to casualty or other problems with our manufacturing operations or distribution network. We own or lease manufacturing facilities in the United States, Honduras, Mexico and El Salvador. We also own or lease distribution facilities located throughout the United States and maintain inventory at third-party distribution facilities in the United States. Any casualty or other circumstance that damages or destroys any of these material facilities or significantly limits their ability to function could materially affect our business in an adverse way. Similarly, any significant interruption in the operation of any of these facilities or our related sourcing and transportation logistics functions, whether within or outside of our control, may delay shipment of merchandise to our customers, potentially damaging our reputation and customer relationships and causing a loss of revenue. In addition, if we are unable to successfully coordinate the planning of inventory across these facilities and the related distribution activities, it could have a material adverse effect on our business, financial condition and results of operations.

Failure of our operations to comply with safety, health and environmental regulations could have a material adverse effect on our financial position and results of operations. Our operations must meet extensive federal, state and local regulatory standards in

the areas of safety, health and environmental pollution controls. There can be no assurance that interpretations of existing regulations, future changes in existing laws, or the enactment of new laws and regulations will not require substantial additional expenditures. Although we believe that we are in compliance in all material respects with existing regulatory requirements in these areas, the extent of our liability, if any, for the discovery of currently unknown problems or conditions, or past failures to comply with laws, regulations and permits applicable to our operations, cannot be determined and could have a material adverse effect on our financial position and results of operations.

We are subject to periodic litigation in both domestic and international jurisdictions that may adversely affect our financial position and results of operations. From time to time we may be involved in legal or regulatory actions regarding product liability, employment practices, intellectual property infringement, bankruptcies and other litigation. Due to the inherent uncertainties of litigation in both domestic and foreign jurisdictions, we cannot accurately predict the ultimate outcome of any such proceedings. These proceedings could cause us to incur costs and may require us to devote resources to defend against these claims and could ultimately result in a loss or other remedies such as product recalls, which could adversely affect our financial position and results of operations. For a description of current material legal proceedings, see Part I, Item 3, Legal Proceedings.

We rely on the strength of our trademarks and could incur significant costs to protect these trademarks and our other intellectual property. Our trademarks, including Salt Life®, Soffe®, Junk Food®, Coast®, Intensity Athletics®, Kudzu®, Pro Weight®, Magnum Weight®, and the Delta Design, among others, are important to our marketing efforts and have substantial value. We aggressively protect these trademarks and have incurred legal costs in the past to establish and protect these trademarks. We may in the future be required to expend significant additional resources to protect these trademarks and our other intellectual property. The loss or limitation of the exclusive right to use our trademarks or other intellectual property could adversely affect our sales and results of operations.

A significant portion of our business relies upon license agreements. We rely on licensed products for a significant part of our sales. We believe that our license agreements in the aggregate are of significant value to our business. The loss of or failure to obtain, renew or extend license agreements on favorable terms could adversely affect our sales and have a material adverse effect on our financial condition and results of operations.

We may be subject to the impairment of acquired intangible assets. When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The amount of the purchase price that is allocated to goodwill is determined by the excess of the purchase price over the net identifiable assets acquired. At October 1, 2016, and October 3, 2015, our goodwill and other intangible assets were approximately \$57.7 million and \$58.9 million, respectively. We conduct an annual review, and more frequent reviews if events or circumstances dictate, to determine whether goodwill is impaired. We also determine whether impairment indicators are present related to our identifiable intangible assets. If we determine that goodwill or intangible assets are impaired, we would be required to write down the value of these assets. We completed our annual impairment test of goodwill on the first day of our 2016 third fiscal quarter. Based on the valuation, we concluded there was no impairment on the goodwill recorded on our financial statements. We also concluded that there are no additional indicators of impairment related to our intangible assets. There can, however, be no assurance that we will not be required to take an impairment charge in the future, which could have a material adverse effect on our results of operations.

Changes in the regulations and laws regarding ecommerce could reduce the growth and lower the profitability of our internet sales. The ecommerce industry has undergone, and continues to undergo, rapid development and change. There have been continuing efforts to increase the legal and regulatory obligations of and restrictions on companies conducting commerce through the internet, primarily in the areas of taxation, consumer privacy and protection of consumer personal information. These laws and regulations could increase the costs and liabilities associated with our ecommerce activities, thereby negatively impacting our results of operations.

Significant changes to international trade regulations could adversely affect our results of operations. The majority of our products are manufactured in Honduras, El Salvador and Mexico. We therefore benefit from current free trade agreements and other duty preference programs, including the North American Free Trade Agreement (“NAFTA”) and the Central America Free Trade Agreement (“CAFTA”). Our claims for duty free or reduced duty treatment under CAFTA, NAFTA and other available programs are largely conditioned on our ability to produce or obtain accurate records (some of which are provided to us by third parties) about production processes and sources of raw materials. Subsequent repeal or modification of NAFTA or CAFTA, or the inadequacy or unavailability of supporting records, could have a material adverse effect on our results of operations. In addition, our products are subject to foreign competition, which in the past has been faced with significant U.S. government import restrictions. The extent of import protection afforded to domestic apparel producers has been, and is likely to remain, subject to political considerations. The elimination of import protections for domestic apparel producers could significantly increase global competition, which could adversely affect our business and results of operations.

Any failure to comply with international trade regulations could cause us to become subject to investigation resulting in significant penalties or claims or in our inability to conduct business, adversely affecting our results of operations. A complaint was filed in March 2012 with the U.S. Department of Labor's Office of Trade & Labor Affairs by the AFL-CIO and various Honduran union federations alleging that the Honduran government failed to enforce its labor laws in violation of the provisions of CAFTA. The complaint contains

various and sundry allegations of Honduran labor law violations by U.S.-based companies with Honduran operations, including our Ceiba Textiles operations. We contend that the allegations against Ceiba Textiles have no merit. The U.S. Department of Labor has initiated an investigation of the allegations in the complaint. We believe that the legal action, if any, that may result from this investigation would be an action by the U.S. government against Honduras under CAFTA, not a legal action against us related to the specific allegations contained in the complaint. However, an action against Honduras could result in sanctions or other penalties against Honduras under CAFTA or in other governmental action that could have a material negative effect on our ability to conduct business there.

Changes in domestic or foreign employment regulations or changes in our relationship with our employees could adversely affect our results of operations. As of October 1, 2016, we employed approximately 7,700 employees worldwide, with approximately 6,700 of these employees being in Honduras, El Salvador and Mexico. Changes in domestic and foreign laws governing our relationships with our employees, including wage and human resources laws and regulations, labor standards, overtime pay, unemployment tax rates, workers' compensation rates and payroll taxes, would likely have a direct impact on our operating costs. A significant increase in wage rates in the countries in which we operate could have a material adverse impact on our operating results. Approximately 1,220 employees at one of our facilities in San Pedro Sula, Honduras are party to a three-year collective bargaining agreement and approximately 1,700 employees at a separate facility in San Pedro Sula, Honduras are party to a three-year collective bargaining agreement. We have historically conducted our operations without significant labor disruptions and believe that our relations with our employees are good. However, if labor relations were to change, it could adversely affect the productivity and ultimate cost of our manufacturing operations.

Recent healthcare legislation may continue to increase our costs and reduce our future profitability. To attract and retain employees in our operations in the United States, we maintain a competitive health insurance program for those employees and their dependents. The Patient Protection and Affordable Care Act, signed into law in 2010, has increased our annual employee healthcare cost obligations and is expected to continue to increase our annual employee healthcare cost obligations going forward. We cannot predict the effect that this legislation, or any future state or federal healthcare legislation or regulation, will ultimately have on our business. However, these rising healthcare costs and universal healthcare coverage in the United States could result in significant long-term costs to us, which could adversely affect our future profitability and financial condition. Also, rising healthcare costs could force us to make changes to our benefits program, which could negatively impact our ability to attract and retain employees.

We are subject to foreign currency exchange rate fluctuations. We manufacture the majority of our products outside of the United States, exposing us to currency exchange rate fluctuations. In addition, movements in foreign exchange rates can affect transaction costs because we source products from various countries. We may seek to mitigate our exposure to currency exchange rate fluctuations, but our efforts may not be successful. Accordingly, changes in the relative strength of the United States dollar against other currencies could adversely affect our business.

The value of our brands, sales of our products and our licensing relationships could be impacted by negative publicity resulting from violations of manufacturing or employee safety standards or labor laws, or unethical business practices, by our suppliers and independent contractors. We are committed to ensuring that all of our manufacturing facilities comply with our strict internal code of conduct, applicable laws and regulations, and the codes and principles to which we subscribe, including those of Worldwide Responsible Accredited Production (WRAP) and the Fair Labor Association (FLA). In addition, we require our suppliers and independent contractors to operate their businesses in compliance with the laws and regulations that apply to them. However, we do not control these suppliers and independent contractors. A violation of our policies, applicable manufacturing or employee safety standards and codes of conduct, labor laws or other laws or regulations by our suppliers or independent contractors could interrupt or otherwise disrupt our operations. Negative publicity regarding the production or operating methods of any of our suppliers or independent contractors or their failure to comply with our policies, applicable manufacturing or employee safety standards and codes of conduct, labor laws or other laws or regulations could adversely affect our reputation, brands, sales and licensing relationships, which could adversely affect our business and results of operations.

The market price of our shares is affected by the illiquidity of our shares, which could lead to our shares trading at prices that are significantly lower than expected. Various investment banking firms have informed us that public companies with relatively small market capitalizations have difficulty generating institutional interest, research coverage or trading volume. This illiquidity can translate into price discounts as compared to industry peers or to the shares' inherent value. We believe that the market perceives us to have a relatively small market capitalization. This could lead to our shares trading at prices that are significantly lower than our estimate of their inherent value.

As of November 15, 2016, we had 7,579,255 shares of common stock outstanding. We believe that approximately 67% of our stock is beneficially owned by entities and individuals who each own more than 5% of the outstanding shares of our common stock. Included in the 67% are institutional investors that beneficially own more than 5% of the outstanding shares. These institutional investors own approximately 54% of the outstanding shares of our common stock. Sales of substantial amounts of our common stock in the public market by any of these large holders could adversely affect the market price of our common stock.

The market price of our shares may be highly volatile, and the stock market in general can be highly volatile. Fluctuations in our stock price may be influenced by, among other things, general economic and market conditions, conditions or trends in our industry, changes in the market valuations of other apparel companies, announcements by us or our competitors of significant acquisitions, strategic partnerships or other strategic initiatives, and trading volumes. Many of these factors are beyond our control, but may cause the market price of our common stock to decline, regardless of our operating performance.

Efforts to comply with the evolving regulatory landscape regarding public company governance and disclosure could result in significant additional costs. We are committed to maintaining high standards for internal controls over financial reporting, corporate governance and public disclosure. However, evolving laws, regulations and standards relating to these issues such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Sarbanes-Oxley Act, and similar regulations have created significant additional compliance requirements for companies like us. We have devoted and will continue to devote significant resources, and our management team has devoted and will continue to devote substantial time, to comply with these standards. This may lead to increases in our cost structure, divert the attention of our management team from revenue generating activities to compliance efforts, and could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive office is located in a leased facility in Greenville, South Carolina. We own and lease properties supporting our administrative, manufacturing, distribution and direct retail activities. The majority of our products are manufactured through a combination of facilities that we either own, or lease and operate. As of October 1, 2016, we owned or leased nine manufacturing facilities (located in the United States, Honduras, El Salvador and Mexico) and nine distribution facilities (all within the United States). In addition, we operate three leased factory-direct stores, five flagship retail stores and a leased showroom.

Our primary manufacturing and distribution facilities are as follows:

Location	Utilization	Segment
Ceiba Textiles, Honduras*	Knit/dye/finish/cut	Basics and branded
Honduras Plant, San Pedro Sula, Honduras*	Sew	Basics and branded
Cortes Plant, San Pedro Sula, Honduras*	Sew	Basics and branded
Mexico Plant, Campeche, Mexico*	Cut/sew	Basics and branded
Textiles LaPaz, La Paz, El Salvador*	Cut/sew/decoration	Basics and branded
Campeche Sportswear, Campeche, Mexico*	Decoration	Basics and branded
Fayetteville Plant, Fayetteville, NC	Sew/decoration	Branded
Rowland Plant, Rowland, NC	Sew	Basics and branded
Art Gun, Miami, FL*	Decoration/distribution	Basics
Distribution Center, Fayetteville, NC	Distribution	Branded
Distribution Center, Clinton, TN	Distribution	Basics
Distribution Center, Santa Fe Springs, CA*	Distribution	Basics and branded
Distribution Center, Miami, FL*	Distribution	Basics and branded
Distribution Center, Cranbury, NJ*	Distribution	Basics and branded
Distribution Center, Dallas, TX**	Distribution	Basics
Distribution Center, Chicago, IL***	Distribution	Basics
DC Annex, Fayetteville, NC*	Distribution	Branded

* Denotes leased location

** Denotes third party-operated distribution facility

*** Denotes third party-operated distribution facility opened in September, 2016

We believe that all of our facilities are suitable for the purposes for which they are designed and are generally adequate to allow us to remain competitive. We continue to maintain a sharp focus on improving our supply chain, lowering our product costs and reducing the operating capital required in our business. We will continue to take the necessary actions to balance capacities with demand as needed. Substantially all of our assets are subject to liens in favor of our lenders under our U.S. asset-based secured credit facility and our Honduran credit facility.

ITEM 3. LEGAL PROCEEDINGS

U.S. 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. Junkfood subsequently 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 disputed the Commission's allegations and subsequently responded to the Commission staff regarding its recommended penalty, setting forth a number of defenses and mitigating factors that could have resulted in a much lower penalty, if any, ultimately imposed by a court had the matter proceeded to litigation.

We believe that any claims brought by the Commission seeking enforcement of the recommended penalty would be time-barred under any reasonable interpretation of the applicable civil statute of limitations. Accordingly, we consider this matter to be resolved, and during the quarter ended October 1, 2016, we reversed the liability previously recorded in connection with this matter.

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 was brought as a class action and sought 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 also named as defendants Junkfood, Soffe, an independent contractor of Soffe, and a former employee, and sought to include all current and certain former employees of Junkfood, Soffe and the Soffe independent contractor within California who are or were non-exempt under applicable wage and hour laws. The Complaint sought injunctive and declaratory relief, monetary damages and compensation, penalties, attorneys' fees and costs, and pre-judgment interest.

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 was brought as a class action and sought to include all current and certain former employees of Junkfood, Soffe, our Delta Activewear business unit, the Soffe independent contractor named in the Complaint and an individual employee of such contractor within California who are or were non-exempt under applicable wage and hour laws.

On September 17, 2015, an agreement in principle was reached between all parties to settle the above-referenced wage and hour matters, with the defendants in the matters agreeing to pay an aggregate amount of \$300,000 in exchange for a comprehensive release of all claims at issue in the matters. Delta Apparel, Inc., Soffe and Junkfood collectively agreed to contribute \$200,000 towards the aggregate settlement amount, and we have this amount included in our accrued expenses as of October 1, 2016, and October 3, 2015. The settlement agreement was approved by the applicable court and these matters have been finally resolved, with the agreed amounts funded subsequent to the 2016 fiscal year-end.

The Sports Authority Bankruptcy Litigation

Soffe is involved in several related litigation matters stemming from The Sports Authority's ("TSA") March 2, 2016, filing of a voluntary petition(s) for relief under Chapter 11 of the United States Bankruptcy Code (the "TSA Bankruptcy"). Prior to such filing, Soffe provided TSA with products to be sold on a consignment basis pursuant to a "pay by scan" agreement and the litigation matters relate to Soffe's interest in the products it provided TSA on a consignment basis (the "Products") and the proceeds derived from the sale of such products (the "Proceeds").

TSA Stores, Inc. and related entities TSA Ponce, Inc. and TSA Caribe, Inc. filed an action against Soffe on March 16, 2016, in the United States Bankruptcy Court for the District of Delaware (the "TSA Action") essentially seeking a declaratory judgment that: (i) Soffe does not own the Products but rather has a security interest that is not perfected or senior and is avoidable; (ii) Soffe only has an unsecured claim against TSA; (iii) TSA and TSA's secured creditors have valid, unavoidable and senior rights in the Products and the Products are the property of TSA's estate; (iv) Soffe does not have a perfected purchase money security interest in the Products; (v) Soffe is not entitled to a return of the Products; and (vi) TSA can continue to sell the Products and Soffe is not entitled to any proceeds from such sales other than as an unsecured creditor. The TSA Action also contains claims seeking to avoid Soffe's filing of a financing statement related to the Products as a preference and recover the value of that transfer as well as to disallow Soffe's claims until it has returned preferential transfers or their associated value. TSA also brings a claim for a permanent injunction barring Soffe from taking certain actions. We believe that many of the claims in the TSA Action, including TSA's claim for injunction, are now moot as a result of Soffe's agreement to permit TSA to continue selling the Products in TSA's going-out-of-business sale.

On May 16, 2016, TSA lender Wilmington Savings Fund Society, FSB, as Successor Administrative and Collateral Agent ("WSFS"), intervened in the TSA Action seeking a declaratory judgment that: (i) WSFS has a perfected interest in the Products and Proceeds that is

senior to Soffe's interest; and (ii) the Proceeds paid to Soffe must be disgorged pursuant to an order previously issued by the court. WSFS's intervening complaint also contains a separate claim seeking the disgorgement of all Proceeds paid to Soffe along with accrued and unpaid interest.

Soffe has asserted counterclaims against WSFS in the TSA Action essentially seeking a declaratory judgment that: (i) WSFS is not perfected in the Products; and (ii) WSFS's interest in the Products is subordinate to Soffe's interest.

On May 24, 2016, Soffe joined an appeal filed by a number of TSA consignment vendors in the United States District Court for the District of Delaware challenging an order issued in the TSA Bankruptcy that, should WSFS or TSA succeed in the TSA Action, granted TSA and/or WSFS a lien on all Proceeds received by Soffe and requiring the automatic disgorgement of such Proceeds. As of November 14, 2016, Soffe and another entity are the remaining consignment vendors pursuing this appeal.

Although we will continue to vigorously defend against the TSA Action and pursue the above-referenced counterclaims and appeal, should TSA and/or WSFS ultimately prevail on their claims, we could be forced to disgorge all Proceeds received and forfeit our ownership rights in any Products that remain in TSA's possession. We believe the range of possible loss in this matter is currently \$0 to \$3.3 million; however, it is too early to determine the probable outcome and, therefore, no amount has been accrued related to this matter.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information for Common Stock: The common stock of Delta Apparel, Inc. is listed and traded on the NYSE MKT under the symbol “DLA”. As of November 15, 2016, there were approximately 868 record holders of our common stock.

The following table sets forth, for each of the periods indicated below, the high and low sales prices per share of our common stock as reported on the NYSE MKT.

	High Sale Price	Low Sale Price
Fiscal Year 2016:		
September Quarter	\$25.52	\$15.31
June Quarter	\$22.93	\$17.01
March Quarter	\$19.93	\$11.61
December Quarter	\$18.10	\$13.70
Fiscal Year 2015:		
September Quarter	\$19.44	\$11.54
June Quarter	\$15.35	\$11.91
March Quarter	\$12.45	\$8.50
December Quarter	\$11.35	\$8.35

Dividends: Our Board of Directors did not declare, nor were any dividends paid, during fiscal years 2016 and 2015. Subject to the provisions of any outstanding blank check preferred stock (none of which is currently outstanding), the holders of our common stock are entitled to receive whatever dividends, if any, that may be declared from time to time by our Board of Directors in its discretion from funds legally available for that purpose. Pursuant to the terms of our credit facility, we are allowed to make cash dividends and stock repurchases if (i) as of the date of the payment or repurchase and after giving effect to the payment or repurchase, we have availability on that date of not less than 15% of the lesser of the borrowing base or the commitment, and average availability for the 30-day period immediately preceding that date of not less than 15% of the lesser of the borrowing base or the commitment; and (ii) the aggregate amount of dividends and stock repurchases after May 10, 2016, does not exceed \$10 million plus 50% of our cumulative net income (as defined in the Amended Credit Agreement) from the first day of the third quarter of fiscal year 2016 to the date of determination. At October 1, 2016, and October 3, 2015, there was \$10.7 million and \$7.3 million, respectively, of retained earnings free of restrictions to make cash dividends or stock repurchases.

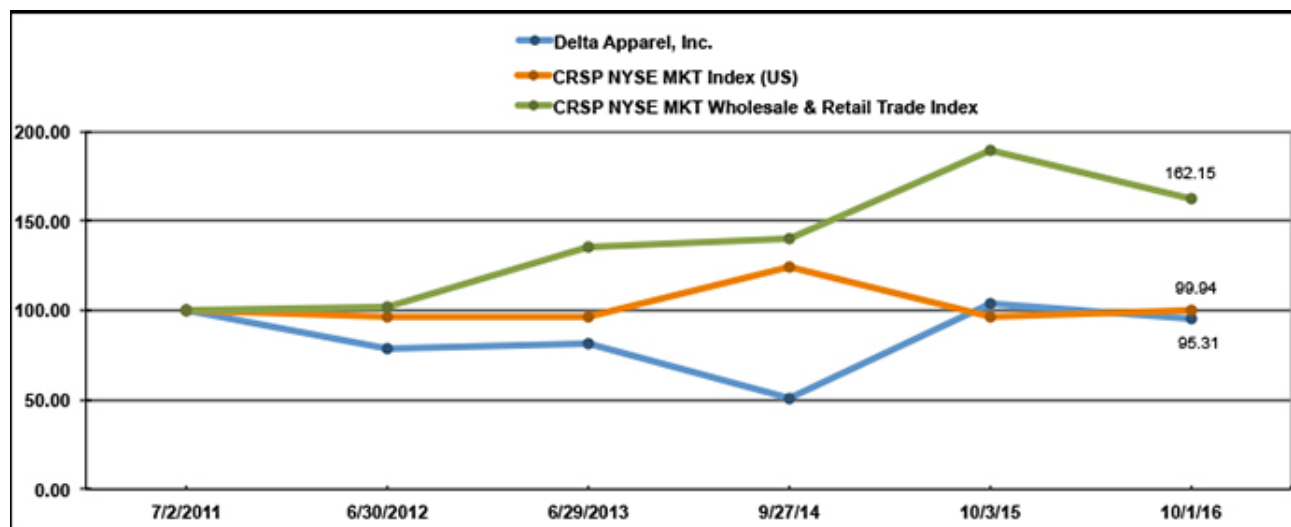
Any future cash dividend payments will depend upon our earnings, financial condition, capital requirements, compliance with loan covenants and other relevant factors.

Purchases of our Own Shares of Common Stock: See Note 15 - Repurchase of Common Stock and Note 9 - Debt, in Item 15, which is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans: The information required by Item 201(d) of Regulation S-K is set forth under “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this Annual Report, which information is incorporated herein by reference.

Comparison of Total Return Among Delta Apparel, Inc., CRSP NYSE MKT Index (US), and CRSP NYSE MKT Wholesale & Retail Trade Index:

Our common stock began trading on the NYSE MKT (previously the NYSE Amex) on June 30, 2000, the last trading day of our fiscal year 2000. Prior to that date, no securities of Delta Apparel were publicly traded. Set forth below is a line graph comparing the yearly change in the cumulative total stockholder return, assuming dividend reinvestment, of our common stock with (1) the CRSP NYSE MKT Index (US) and (2) the CRSP NYSE MKT Wholesale and Retail Trade Index, which is comprised of all NYSE MKT companies with SIC codes from 5000 through 5999. This performance graph assumes that \$100 was invested in the common stock of Delta Apparel and comparison groups on July 2, 2011, and that all dividends have been reinvested.



	2011	2012	2013	2014	2015	2016
Delta Apparel, Inc.	\$ 100.00	\$ 79.10	\$ 81.64	\$ 50.96	\$ 103.94	\$ 95.31
CRSP NYSE MKT Index (US)	\$ 100.00	\$ 96.51	\$ 96.55	\$ 124.48	\$ 96.63	\$ 99.94
CRSP NYSE MKT Wholesale & Retail Trade Index	\$ 100.00	\$ 102.05	\$ 135.46	\$ 140.57	\$ 189.86	\$ 162.15

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data includes the financial position and results of operations of acquired businesses beginning on the date of acquisition. On August 30, 2016, we acquired Coast Apparel, and on August 27, 2013, we purchased substantially all of the assets of Salt Life Holdings, LLC, including all of its domestic and international trademark rights in the Salt Life brand. Prior to the acquisition of Salt Life, we sold Salt Life-branded products under exclusive license agreements which began in January 2011. The consolidated statements of operations data for the years ended June 30, 2012, June 29, 2013, and the transition period ended September 28, 2013 and the consolidated balance sheet data as of June 30, 2012, June 29, 2013, September 28, 2013, and September 27, 2014, are derived from, and are qualified by reference to, our audited consolidated financial statements not included in this document. The consolidated statement of operations data for the years ended September 27, 2014, October 3, 2015, and October 1, 2016, and the consolidated balance sheet data as of October 3, 2015, and October 1, 2016, are derived from, and are qualified by reference to, our audited consolidated financial statements included elsewhere in this document. We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. All fiscal years shown were 52-week years with the exception of fiscal year 2015, which was a 53-week year, and the 13-week transition period ended September 28, 2013. Historical results are not necessarily indicative of results to be expected in the future. The selected financial data should be read in conjunction with the Consolidated Financial Statements and the related notes as indexed on page F-1 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7.

	Period Ended					
	October 1, 2016	October 3, 2015	September 27, 2014	September 28, 2013*	June 29, 2013	June 30, 2012
(In thousands, except per share amounts)						
Statement of Operations Data:						
Net sales	\$ 425,249	\$ 449,142	\$ 452,901	\$ 122,559	\$ 490,523	\$ 489,923
Cost of goods sold	(331,750)	(360,823)	(367,160)	(95,439)	(381,014)	(406,200)
Selling, general and administrative expenses	(76,578)	(81,086)	(86,275)	(26,588)	(94,944)	(89,973)
Restructuring costs	(1,741)	—	—	—	—	—
Change in fair value of contingent consideration	600	500	(200)	—	—	—
Gain on sale of business	—	7,704	—	—	—	—
Other income (expense), net	552	682	(927)	24	(662)	28
Operating income (loss)	16,332	16,119	(1,661)	556	13,903	(6,222)
Interest expense, net	5,287	6,021	5,792	1,033	3,997	4,132
Earnings (loss) before income taxes	11,045	10,098	(7,453)	(477)	9,906	(10,354)
Provision for (benefit from) income taxes	2,081	2,005	(6,493)	(1,045)	722	(7,907)
Net earnings (loss)	<u>\$ 8,964</u>	<u>\$ 8,093</u>	<u>\$ (960)</u>	<u>\$ 568</u>	<u>\$ 9,184</u>	<u>\$ (2,447)</u>
Basic earnings (loss) per common share:	\$ 1.16	\$ 1.03	\$ (0.12)	\$ 0.07	\$ 1.12	\$ (0.29)
Diluted earnings (loss) per common share:	\$ 1.12	\$ 1.00	\$ (0.12)	\$ 0.07	\$ 1.08	\$ (0.29)
Dividends declared per common share	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Balance Sheet Data (at year end):						
Working capital	\$ 150,191	\$ 131,485	\$ 156,258	\$ 171,681	\$ 173,435	\$ 187,029
Total assets	344,652	324,903	354,578	351,762	311,910	320,394
Total long-term debt, less current maturities	106,603	93,872	114,469	131,030	94,763	110,949
Shareholders’ equity	152,015	144,499	138,207	138,872	141,066	138,967

*Period ended September 28, 2013 was a 13-week transition period

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

BUSINESS OUTLOOK

Delta Apparel had solid operating results in fiscal year 2016 despite continuing sluggishness in the apparel retail environment. During the year, we completed a large-scale expansion and realignment effort across both our domestic and international manufacturing platforms that allows us to maximize production at our lower-cost facilities, eliminate duplicative fixed costs, and leverage the latest dyeing and finishing technology. We began increasing fabric production in our more efficient Honduran textile facility in June 2016, have successfully increased output in that facility on schedule, and should be at full production levels by the end of calendar year 2016. We also completed the sale of our Maiden, North Carolina textile facility in September 2016, and are efficiently sourcing domestic fabric for our made-in-the-USA programs and sourcing in-country fabric to use in our Mexico sew and screen print facilities, which now serve as a quick-turn operation to support continued growth in our full-package catalog programs. This realignment effort is expected to improve gross margins and ultimately boost operating earnings by an estimated \$8 million annually, or approximately \$0.70 per diluted share.

During fiscal year 2016, we also continued to invest in our brands, with expanded sales and marketing programs, in-store shops and point-of-sale displays. Our social media and other digital outreach programs continued to build consumer awareness of our brands, resulting in record e-commerce sales. Our acquisition of Coast Apparel adds to our brand portfolio. Coast's full line of traditional, sports-casual attire, headwear and accessories are primarily marketed direct-to-consumer through two retail stores, with a third retail store expected to be opened in early calendar 2017.

We are working to improve our top-line growth by focusing on the business units with the highest immediate potential. Salt Life continued its strong growth trend in fiscal year 2016, including robust increases in direct-to-consumer sales. Sales increased 69% over the prior year on our ecommerce site, www.saltlife.com. The Salt Life flagship store in Jacksonville, Florida, in operation for five years now, continues to increase its sales, with growth of nearly 20% in fiscal year 2016 over the prior year. Our Salt Life store in San Clemente opened in September and should help drive consumer enthusiasm on the West Coast. We plan on continuing to broaden our geographic reach by opening a few stores each year for the next several years to expand our consumer engagement. We are also planning to further leverage cross-selling opportunities with the Art Gun business unit. Art Gun, which has solidified its leadership position in the digital printing marketplace, realized strong net sales growth in the 2016 fiscal year, and we expect Art Gun to continue its double-digit growth in fiscal year 2017.

We anticipate gross margin expansion in the fiscal year 2017 driven by a more profitable sales mix, and lower product costs. Margins should also be enhanced as we continue our direct-to-consumer focus across our business units. We expect the strategic initiatives implemented in the past two years, coupled with the positive momentum we are experiencing, to point us toward continued success in fiscal year 2017.

RESULTS OF OPERATIONS

Our financial results have been presented on a GAAP basis. In certain limited instances, we have presented our financial results on a GAAP and non-GAAP ("adjusted") basis, which is further described and reconciled in the section entitled "Non-GAAP Financial Measures."

Overview

Net sales for the fiscal year ended October 1, 2016, were \$425.2 million compared with prior year sales of \$449.1 million. Sales declined 0.5% from the prior year adjusted net sales, with basics segment sales flat with the prior year and branded segments sales down 1.5%.

Gross margins were 22.0% in fiscal year 2016, a 230 basis point improvement from 19.7% in the prior year. Adjusted gross margins improved 250 basis points from the prior year driven primarily by the basics segment, resulting from a more profitable sales mix and lower product costs.

Our selling, general and administrative costs decreased \$4.5 million to 18.0% of sales, from 18.1% of sales in the prior year. We continue to invest in marketing efforts across our business units to build consumer awareness and market our products. During fiscal year 2016, we improved our distribution efficiency to better service our customers and reduce our expenses. This, coupled with continued reduction in discretionary spending, drove the improvement in our selling, general and administrative costs in fiscal year 2016.

We recorded a \$0.6 million gain during fiscal year 2016 as we lowered the contingent consideration expected to be paid associated with Salt Life based on the inputs to the valuation model, including the time remaining as we move closer to the 2019 measurement date.

Net income in fiscal year 2016 was \$9.0 million, or \$1.12 per diluted share, compared with a net income in the prior year of \$8.1 million, or \$1.00 per diluted share. Adjusted earnings per diluted share were \$1.41, a 147.4% increase from the prior year's \$0.57 adjusted earnings per diluted share.

Branded Segment

Net sales in the branded segment were \$148.1 million in fiscal year 2016 compared to \$166.7 million in the prior year. Sales in the branded segment declined \$2.3 million, or 1.5%, when excluding the \$16.3 million in sales related to since-divested *The Game* business and the since-discontinued *Kentucky Derby* license and the additional week of sales in 2015. Salt Life continued its sales growth, up nearly 27% for the year on a comparable 52-week basis, driven from its new product lines and expanded distribution. The Salt Life sales growth was offset by sales declines in our other branded business units. Operating income for the segment increased year-over-year to \$7.0 million, when excluding the prior year \$5.6 million gain, including related expenses, from the sale of *The Game* business.

Basics Segment

Net sales in our basics segment were \$277.1 million in fiscal year 2016 compared with \$282.5 million in fiscal year 2015. Net sales were flat with the prior year adjusted net sales, after reducing for the additional week of sales in fiscal 2015. Excluding the expenses associated with the manufacturing initiative, gross margins as a percent of sales increased by 480 basis points to 16.5% of sales, compared to 11.7% of sales for the prior fiscal year. Operating income increased by \$9.2 million, to 8.0% of sales, compared to \$13.1 million, or 4.6% of sales, in fiscal year 2015. Adjusted for the \$2.8 million of manufacturing realignment expenses, adjusted operating income for fiscal year 2016 was \$25.1 million, or 9.1% of sales.

Quarterly Financial Data

For information regarding quarterly financial data, refer to Note 17 - Quarterly Financial Information (Unaudited) to the Consolidated Financial Statements, which information is incorporated herein by reference.

Fiscal Year 2016 Versus Fiscal Year 2015

Net sales for fiscal year 2016 were \$425.2 million compared with prior year sales of \$449.1 million. Sales declined 0.5% from the prior year adjusted net sales. Our direct-to-consumer and ecommerce sales represented 5.3% of total revenues for the 2016 fiscal year, a 90 basis point increase over the prior year period, during which direct-to-consumer and ecommerce sales were 4.4% of total revenues.

Gross margins were 22.0% in fiscal year 2016 compared to 19.7% in the prior year. Adjusted gross margins improved 250 basis points from the prior year driven primarily from a more profitable sales mix and lower product costs in the basics segment, coupled with higher direct-to-consumer sales in the branded segment. Our gross margins may not be comparable to other companies, because some companies include costs related to their distribution network in cost of goods sold and we exclude them from gross profit and include them in selling, general and administrative expenses.

Fiscal year 2016 selling, general and administrative expenses were \$76.6 million, or 18.0% of sales, compared to \$81.1 million, or 18.1% of sales, in fiscal year 2015. The decrease in selling, general and administrative expenses is primarily due to lower selling costs and efficiency improvements in our distribution facilities, partially offset by higher incentive compensation costs resulting from our improved operating results in fiscal year 2016 from the prior year.

The change in fair value of contingent consideration is the remeasurement of the contingent consideration related to Salt Life. Based upon the current operating results and future projections, a \$0.6 million reduction in contingent consideration was recorded, principally from the reduced remaining time in the measurement period.

Other income includes our income from our Honduran joint venture, along with sublease income. Other income decreased slightly to \$0.6 million in fiscal year 2016 from \$0.7 million in fiscal year 2015.

Fiscal year 2016 operating income was \$16.3 million compared to \$16.1 million in fiscal year 2015. Fiscal year 2016 adjusted operating income was \$19.2 million, or 4.5% of sales, an \$8.6 million, or 81.9%, increase over the prior year adjusted operating income of \$10.5 million.

Interest expense for fiscal year 2016 decreased \$0.7 million to \$5.3 million compared to \$6.0 million in fiscal year 2015. The decrease is due primarily to the lower average debt levels in fiscal year 2016 compared to the prior year, coupled with slightly lower interest rates on our U.S. credit facility.

Our fiscal year 2016 effective income tax rate was 18.8% compared to 19.9% in the prior fiscal year. We benefit from having income in foreign jurisdictions that are either exempt from income taxes or have tax rates lower than the United States.

Net income in fiscal year 2016 was \$9.0 million, or \$1.12 per diluted share, compared with a net income in the prior year of \$8.1 million, or \$1.00 per diluted share. Adjusted earnings per diluted share were \$1.41, a 147.4% increase from the prior year's \$0.57 adjusted earnings per diluted share.

Non-GAAP Financial Measures

We provide all information required in accordance with generally accepted accounting principles ("GAAP"), but we believe that evaluating our ongoing operating results may be difficult if limited to reviewing only GAAP financial measures. In an effort to provide investors with additional information regarding the Company's results as determined by GAAP, the Company also provides non-GAAP information

that management believes is useful to investors. The Company discusses adjusted net sales, adjusted gross margins, adjusted operating income, and adjusted earnings per diluted share, as performance measures because management uses these measures in evaluating the Company's underlying performance on a consistent basis across periods. Management also believes these measures are frequently used by securities analysts, investors and other interested parties in the evaluation of the Company's ongoing performance. These non-GAAP measures have limitations as analytical tools, and securities analysts, investors and other interested parties should not consider any of these non-GAAP measures in isolation or as a substitute for analysis of the Company's results as reported under GAAP. These non-GAAP measures may not be comparable to similarly titled measures used by other companies. The table below reconciles net sales, gross margins, operating income and earnings per diluted share to the adjusted net sales, adjusted gross margins, adjusted operating income, and adjusted earnings per diluted share (in thousands, except per share amounts):

	Year Ended	
	October 1, 2016	October 3, 2015
Net sales	\$ 425,249	\$ 449,142
Adjustment for:		
53 weeks versus 52 weeks in fiscal year	—	(8,585)
Sales from the since-divested <i>The Game</i> business	—	(10,207)
Sales from the since-discontinued Kentucky Derby business	—	(2,889)
Adjusted net sales	\$ 425,249	\$ 427,461
Gross profit	\$ 93,499	\$ 88,319
Adjustment for manufacturing realignment expenses	1,096	—
Adjusted gross profit	\$ 94,595	\$ 88,319
Gross margins	22.0%	19.7%
Adjustment for manufacturing realignment expenses	0.2%	—
Adjusted gross margins	22.2%	19.7%
Operating income	\$ 16,332	\$ 16,119
Adjustment for manufacturing realignment expenses included in gross profit	1,096	—
Adjustment for manufacturing realignment expenses included in restructuring costs	1,741	—
Adjustment for gain, including related expenses, from the sale of <i>The Game</i> business	—	(5,582)
Adjusted operating income	\$ 19,169	\$ 10,537
Earnings per diluted share	\$ 1.12	\$ 1.00
Adjustment for manufacturing realignment expenses	0.29	—
Adjustment for gain on the sale of <i>The Game</i> business	—	(0.43)
Adjusted earnings per diluted share	\$ 1.41	\$ 0.57

Fiscal Year 2015 Versus Fiscal Year 2014

Net sales for fiscal year 2015 grew 2.5% compared with the prior year after adjusting for the sale of *The Game* business in March 2015. Our direct-to-consumer and ecommerce sales represented 4.4% of total revenues for the 2015 fiscal year, a 150 basis point increase over the prior year period, during which direct-to-consumer and ecommerce sales were 2.9% of total revenues.

Gross margins increased in fiscal 2015 by 80 basis points from fiscal 2014, to 19.7% of sales compared to 18.9% in fiscal 2014. Increases occurred in both the branded and basics segments, and across all operating units with the exception of Soffe. Gross margins improved due to customer and product mix along with improved manufacturing efficiencies and lower costs. Our gross margins may not be comparable to other companies, because some companies include costs related to their distribution network in cost of goods sold and we exclude them from gross profit and include them in selling, general and administrative expenses.

Fiscal year 2015 selling, general and administrative expenses were \$81.1 million, or 18.1% of sales, compared to \$86.3 million, or 19.0% of sales, in fiscal year 2014. The decrease in selling, general and administrative expenses is primarily due to lower fixed compensation and benefit costs, along with a decrease in variable selling costs and lower legal costs. Fiscal 2014 included \$2.2 million of severance related expenses associated with our strategic initiatives during the fourth quarter of fiscal year 2014.

The change in fair value of contingent consideration is the remeasurement of the fair value of the contingent consideration related to the Salt Life Acquisition. Based upon the current operating results and future projections, a \$0.5 million reduction in contingent consideration was recorded.

Our gain on sale of business was \$7.7 million for fiscal year 2015. The gain on sale of business in fiscal year 2015 includes the \$14.9 million in proceeds from the sale of *The Game* business less the assets sold, the direct liabilities resulting from, and the selling costs related to this transaction. Associated with the disposition of *The Game*, \$2.1 million of indirect expenses were also recorded, resulting in a net gain, including indirect expenses, of \$5.6 million. See Note 3 - Sale of The Game, for more information on this transaction.

Other income increased to \$0.7 million in fiscal year 2015 from \$0.9 million of expense in fiscal year 2014. This increase was due to an increase in income from our Honduran joint venture of \$0.3 million, as well as a \$0.1 million increase in sublease income.

Fiscal year 2015 operating income was \$16.1 million, or 3.6% of sales, compared to an operating loss of \$1.7 million, or 0.4% of sales, in fiscal year 2014. Operating income was \$9.7 million in the basics segment and \$6.4 million in the branded segment.

Interest expense for fiscal year 2015 was \$6.0 million compared to \$5.8 million in fiscal year 2014. The increase is due primarily to the higher interest rate on our U.S. credit facility compared to the imputed interest on the Salt Life promissory note related to the \$9.0 million Salt Life payment made at the beginning of the fiscal year, along with higher debt levels in the first half of the fiscal year.

Our fiscal year 2015 effective income tax rate was 19.9% compared to an effective tax rate of 87.1% in the prior fiscal year. The prior year rate was driven from a small overall loss encompassing foreign profits in non-tax jurisdictions and losses in the United States. We benefit from having income in foreign jurisdictions that are either exempt from income taxes or have tax rates lower than the United States.

Net income for fiscal year 2015 was \$8.1 million, or \$1.00 per diluted share, compared with a net loss in the prior fiscal year of \$1.0 million or \$0.12 per diluted share.

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility and Other Financial Obligations

On May 10, 2016, we amended our U.S. revolving credit facility and entered into a Fifth Amended and Restated Credit Agreement (the "Amended Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as Administrative Agent, the Sole Lead Arranger and the Sole Book Runner, and the financial institutions named therein as Lenders, which are Wells Fargo, PNC Bank, National Association and Regions Bank. Our subsidiaries, M.J. Soffe, LLC, Junkfood Clothing Company, Salt Life, LLC, and Art Gun, LLC (together with the Company, the "Companies"), are co-borrowers under the Amended Credit Agreement.

The Amended Credit Agreement allows us to borrow up to \$145 million (subject to borrowing base limitations), including a maximum of \$25 million in letters of credit. Provided that no event of default exists, we have the option to increase the maximum credit to \$200 million (subject to borrowing base limitations), conditioned upon the Administrative Agent's ability to secure additional commitments and customary closing conditions. The credit facility matures on May 10, 2021. We paid \$1.0 million in financing costs associated with the Amended Credit Agreement. At October 1, 2016, we had \$92.1 million outstanding under our U.S. revolving credit facility at an average interest rate of 2.7%, and had the ability to borrow an additional \$32.8 million.

For further information regarding our U.S. asset-based secured credit facility, refer to Note 9 - Long-Term Debt to the Consolidated Financial Statements, which information is incorporated herein by reference.

In August 2013, we acquired Salt Life and issued two promissory notes in the aggregate principal amount 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 October 1, 2016, the discounted value of the promissory note was \$8.1 million. Refer to Note 9 - Long Term Debt to the Consolidated Financial Statements for further information on these promissory notes.

We have loan agreements 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 loans are not guaranteed by our U.S. entities. As of October 1, 2016, we had a total of \$15.5 million outstanding on these loans. For further information regarding our Honduran loans, refer to Note 9 - Long-Term Debt to the Consolidated Financial Statements, which information is incorporated herein by reference.

Our primary cash needs are for working capital and capital expenditures, as well as to fund share repurchases under our Stock Repurchase Program. In addition, in the future we may use cash to pay dividends.

Derivative Instruments

From time to time we may use derivative instruments to manage our exposure to interest rates. These financial instruments are not used for trading or speculation purposes. When we enter into a derivative instrument, we determine whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as either a fair value hedge or cash flow hedge. The hedge is documented at inception, detailing the particular risk objective and strategy considered for undertaking the hedge. The documentation identifies the specific asset or liability being hedged, the risk being hedged, the type of derivative used and how effectiveness of the hedge will be assessed.

During fiscal years 2016, 2015, and 2014, the interest rate swap agreements had minimal ineffectiveness and were considered highly-effective hedges.

Changes in the derivatives' fair values are deferred and are recorded as a component of accumulated other comprehensive income ("AOCI"), net of income taxes, until the underlying transaction is recorded. When the hedged item affects income, gains or losses are reclassified from AOCI to the Consolidated Statements of Operations as interest income/expense. Any ineffectiveness in our hedging relationships is recognized immediately in the Consolidated Statement of Operations. The changes in fair value of the interest rate swap agreements resulted in an AOCI gain, net of taxes, of \$0.3 million for the year ended October 1, 2016, an AOCI loss, net of taxes, of \$0.2 million for the year ended October 3, 2015, an AOCI gain, net of taxes of \$0.3 million for the year ended September 27, 2014.

Operating Cash Flows

Cash provided by operating activities in fiscal year 2016 was \$2.2 million compared to \$22.3 million for fiscal year 2015. The decrease from the prior year is primarily due to increasing our inventory positions in order to better service our customers with immediate shipping in our basics segment and weekly replenishments to retailers.

Investing Cash Flows

Cash used in investing activities in fiscal year 2016 was \$10.8 million compared to \$7.6 million provided by investing activities in fiscal year 2015. Capital expenditures during fiscal year 2016 were \$12.3 million and included expenditures for the expansion of our textile operations that should decrease reliance on purchased fabric and reduce costs by leveraging internal operations. During fiscal year 2015, investing cash flows also included the \$14.9 million in proceeds received from the sale of *The Game* assets. See Note 3 - Sale of The Game, for further information on this transaction. In fiscal year 2015, we used \$7.8 million in cash primarily related to the expansion of our textile operations.

We expect to spend approximately \$10 million in capital expenditures in fiscal year 2017, primarily on manufacturing equipment, along with information technology, and direct-to-consumer investments.

Financing Activities

Cash provided by financing activities was \$8.7 million in fiscal year 2016 compared to \$30.2 million used in financing activities in fiscal year 2015. In fiscal year 2016, we utilized the cash proceeds from our credit facility as well as a new \$5 million Honduran loan to fund the expansion of our offshore operations, as well as the repurchase of stock throughout the year.

Future Liquidity and Capital Resources

Based on our current expectations, we believe that our credit facility should be sufficient to satisfy our foreseeable working capital needs, and that the cash flow generated by our operations and funds available under our credit facility should be sufficient to service our debt payment requirements, to satisfy our day-to-day working capital needs and to fund our planned capital expenditures. Any material deterioration in our results of operations, however, may result in our losing 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 Fixed Charge Coverage Ratio ("FCCR") (as defined in our credit agreement) for the preceding 12-month period must not be less than 1.1 to 1.0. Although our availability at October 1, 2016, 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 October 1, 2016, our FCCR was above the minimum threshold specified in our credit agreement.

The following table summarizes our contractual cash obligations, as of October 1, 2016, by future period.

	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Contractual Obligations:					
Long-term debt (a)	\$ 115,795	\$ 9,192	\$ 18,790	\$ 87,618	\$ 195
Operating leases	39,935	7,177	12,832	9,530	10,396
Capital leases	1,599	410	886	303	—
Minimum royalty payments	1,310	1,132	178	—	—
Purchase obligations	42,905	42,905	—	—	—
Total (b)	\$ 201,544	\$ 60,816	\$ 32,686	\$ 97,451	\$ 10,591

- (a) We include interest on our fixed rate debt as a component of our future obligations. However, we exclude interest payments on our revolving credit facility since the cash outlay for the interest is unknown and cannot be reliably estimated. Interest payments will be determined based upon the daily outstanding balance of the revolving credit facility and the prevailing interest rate during that time.
- (b) We excluded deferred income tax liabilities of \$10.5 million from the contractual cash obligations table because we believe inclusion would not be meaningful. Refer to Note 10 - Income Taxes to our Consolidated Financial Statements for more information on our deferred income tax liabilities. Deferred income tax liabilities are calculated based on temporary differences between tax bases of assets and liabilities and their respective book bases, which will result in taxable amounts in future years when the liabilities are settled at their reported financial statement amounts. The results of these calculations do not have a direct connection with the amount of cash taxes to be paid in any future periods and therefore would not relate to liquidity needs. As a result, including deferred income tax liabilities as payments due by period in the schedule could be misleading.

Off-Balance Sheet Arrangements

As of October 1, 2016, we did not have any off-balance sheet arrangements that were material to our financial condition, results of operations or cash flows as defined by Item 303(a)(4) of Regulation S-K promulgated by the SEC other than the letters of credit, operating leases, and purchase obligations described in the table above. We have entered into derivative interest rate contracts as described and included below in “Quantitative and Qualitative Disclosures about Market Risk” in Item 7A of this report.

Dividends and Purchases of our Own Shares

Pursuant to the terms of our credit facility, we are allowed to make cash dividends and stock repurchases if (i) as of the date of the payment or repurchase and after giving effect to the payment or repurchase, we have availability on that date of not less than 15% of the lesser of the borrowing base or the commitment, and average availability for the 30-day period immediately preceding that date of not less than 15% of the lesser of the borrowing base or the commitment; and (ii) the aggregate amount of dividends and stock repurchases after May 10, 2016, does not exceed \$10 million plus 50% of our cumulative net income (as defined in the Amended Credit Agreement) from the first day of the third quarter of fiscal year 2016 to the date of determination. At October 1, 2016, and October 3, 2015, there was \$10.7 million and \$7.3 million, respectively, of retained earnings free of restrictions to make cash dividends or stock repurchases.

Our Board of Directors did not declare, nor were any dividends paid, during fiscal years 2016 and 2015. Any future cash dividend payments will depend upon our earnings, financial condition, capital requirements, compliance with loan covenants and other relevant factors.

As of October 1, 2016, our Board of Directors had authorized management to use up to \$40.0 million to repurchase stock in open market transactions under our Stock Repurchase Program. During fiscal years 2016, 2015 and 2014, we purchased 217,568 shares, 140,336 shares, 78,674 shares, respectively, of our common stock for a total cost of \$3.5 million, \$2.1 million, \$1.2 million, respectively. As of October 1, 2016, we have purchased 2,480,150 shares of common stock for an aggregate of \$30.9 million since the inception of the 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 October 1, 2016, \$9.1 million remained available for future purchases under our Stock Repurchase Program, which does not have an expiration date.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). The preparation of our 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. Our most critical accounting estimates, discussed below, pertain to revenue recognition, accounts receivable and related reserves, inventory and related reserves, the carrying value of goodwill, and the accounting for income taxes.

Note 2 to our Consolidated Financial Statements includes a summary of the significant accounting policies or methods used in the preparation of our Consolidated Financial Statements.

Revenue Recognition

Revenues from product sales are recognized when ownership is transferred to the customer, which includes not only the passage of title, but also the transfer of the risk of loss related to the product. At this point, the sales price is fixed and determinable, and we are reasonably assured of the collectibility of the sale. The majority of our sales are shipped FOB shipping point and revenue is therefore recognized when the goods are shipped to the customer. For sales that are shipped FOB destination point, we do not recognize the revenue until the goods are received by the customer. Shipping and handling charges billed to our customers are included in net revenue and the related costs are included in cost of goods sold. Revenues are reported on net sales basis, which is computed by deducting product returns, discounts and estimated returns and allowances. We estimate returns and allowances on an ongoing basis by considering historical and current trends.

Accounts Receivable and Related Reserves

In the normal course of business, we extend credit to our customers based upon defined credit criteria. Accounts receivable, as shown on our Consolidated Balance Sheets, are net of related reserves. We estimate the net collectibility of our accounts receivable and establish an allowance for doubtful accounts based upon this assessment. In situations where we are aware of a specific customer's inability to meet its financial obligation, such as in the case of a bankruptcy filing, a specific reserve for bad debts is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. For all other customers, reserves are determined through analysis of the aging of accounts receivable balances, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms. In addition, reserves are established for other concessions that have been extended to customers, including advertising, markdowns and other accommodations, net of historical recoveries. These reserves are determined based upon historical deduction trends and evaluation of current market conditions. Significant changes in customer concentration or payment terms, deterioration of customer credit-worthiness or further weakening in economic trends could have a significant impact on the collectibility of receivables and our operating results.

Inventories and Related Reserves

We state inventories at the lower of cost or market using the first-in, first-out method. Inventory cost includes materials, labor and manufacturing overhead on manufactured inventory, and all direct and associated costs, including inbound freight, to acquire sourced products. See Note 2(y) for further information regarding yarn procurements. We regularly review inventory quantities on hand and record reserves for obsolescence, excess quantities, irregulars and slow moving inventory based on historical selling prices, current market conditions, and forecasted product demand to reduce inventory to its net realizable value. If actual selling prices are less favorable than those projected, or if sell-through of the inventory is more difficult than anticipated, additional inventory reserves may be required.

Goodwill

Goodwill and definite-lived intangibles were recorded in conjunction with our acquisitions of Salt Life, Junkfood, and Art Gun. We did not record any separately identifiable indefinite-lived intangibles associated with any of these acquisitions. Goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired. Goodwill must be tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired, and is required to be written down when impaired. The goodwill impairment testing process involves the use of significant assumptions, estimates and judgments with respect to a variety of factors, including sales, gross margins, selling, general and administrative expenses, capital expenditures, cash flows and the selection of an appropriate discount rate, all of which are subject to inherent uncertainties and subjectivity. When we perform goodwill impairment testing, our assumptions are based on annual business plans and other forecasted results, which we believe represent those of a market participant. We select a discount rate, which is used to reflect market-based estimates of the risks associated with the projected cash flows, based on the best information available as of the date of the impairment assessment.

Given the current macro-economic environment and the uncertainties regarding its potential impact on our business, there can be no assurance that our estimates and assumptions used in our impairment tests will prove to be accurate predictions of the future. If our assumptions regarding forecasted cash flows are not achieved, it is possible that an impairment review may be triggered and goodwill may be impaired.

Income Taxes

We account for income taxes under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As of October 1, 2016, we have a federal net operating loss carryforward of \$18.3 million, which is classified in deferred tax assets, as there is no carryback opportunity and the entire loss must be carried forward for utilization against future taxable income. We determined that no valuation allowance is required to be recorded against the federal net operating loss carryforward under Financial Accounting Standards Board ("FASB") Codification No. 740, Income Taxes ("ASC 740"). These federal net loss carryforwards expire at various intervals from 2033 to 2035.

We established a valuation allowance related to certain of our state operating loss carryforward amounts in accordance with the provisions of ASC 740. We continually review the adequacy of the valuation allowance and recognize the benefits of deferred tax assets if reassessment indicates that it is more likely than not that the deferred tax assets will be realized based on earnings forecasts in the respective state tax jurisdictions. We had state net operating loss carryforwards ("NOLs") as of October 1, 2016, of approximately \$48.7 million. We had deferred tax assets of \$1.9 million as of October 1, 2016, related to these state NOLs, with related valuation allowances against them of approximately \$0.1 million. These state net loss carryforwards expire at various intervals from 2019 through 2036.

A valuation allowance is required to reduce the carrying value of deferred tax assets to the amount that is more-likely-than-not to be realized. In making this final determination, the Company follows ASC 740 and looks to taxable income in prior carryback years, reversals of existing temporary book/tax differences, tax planning strategies and future taxable income exclusive of reversals of existing temporary differences. By its very nature, future taxable income requires estimates and judgments about future events that may be predictable, but are far less certain than past events that can be objectively measured. Based on current analysis and assessments, the Company concluded that no valuation allowance is required on existing deferred tax assets resulting from temporary deductible differences or on federal net operating losses as these are both expected to be fully utilized with future earnings. However, based upon the analysis of the sources of taxable income, we did determine a valuation allowance was required on the deferred tax asset resulting from certain state net operating loss carryforwards. The amount of the valuation allowance recorded was calculated after considering all four sources mentioned above.

RECENT ACCOUNTING STANDARDS

For information regarding recently issued accounting standards, refer to Note 2(aa) and Note 2(ab) to our Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Risk Sensitivity

We have a supply agreement with Parkdale to supply our yarn requirements until December 31, 2018. 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 October 1, 2016, was valued at \$12.3 million, and is scheduled for delivery between October 2016 and December 2016. At October 1, 2016, a 10% decline in the market price of the cotton covered by our fixed price yarn would have had a negative impact of approximately \$0.9 million on the value of the yarn. This compares to what would have been a negative impact of \$2.9 million at our 2015 fiscal year end based on the yarn with fixed cotton prices at October 3, 2015.

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 sales in the Consolidated Statements of Operations. We did not own any significant cotton options contracts on October 1, 2016, or October 3, 2015.

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.

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 October 1, 2016, under the U.S. revolving credit facility had been outstanding during the entire year and the interest rate on this outstanding indebtedness was increased by 100 basis points, our expense would have increased by approximately \$0.3 million, or 6.1%, for the fiscal year. This compares to an increase of \$0.2 million, or 3.2%, for the 2015 fiscal year based on the outstanding floating rate indebtedness at October 3, 2015. The effect of a 100 basis point increase in interest rates would have had a higher dollar impact for the year ended October 1, 2016, compared to the year ended October 3, 2015, from the higher floating rate debt outstanding on October 1, 2016. The percentage increase is more significant for fiscal year 2016 than for fiscal year 2015 because our total interest expense for fiscal year 2016 was lower than our total interest expense for fiscal year 2015. The actual increase in interest expense resulting from a change in interest rates would depend on the magnitude of the increase in rates and the average principal balance outstanding.

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. See Note 2(z) and Note 16(d) to the Consolidated Financial Statements for more information on our derivatives.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements for each of our fiscal years ended October 1, 2016, October 3, 2015, and September 27, 2014, together with the Reports of Independent Registered Public Accounting Firms thereon, are included in this report commencing on page F-1 and are listed under Part IV, Item 15 in this report.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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 October 1, 2016, 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.

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 Securities and Exchange Commission's rules and forms. 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.

Management's Annual Report on Internal Control over Financial Reporting

Management of Delta Apparel, Inc. is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of October 1, 2016. In this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) ("COSO") in *Internal Control – Integrated Framework*. The scope of our efforts to comply with the internal requirements of Section 404 of the Sarbanes-Oxley Act of 2002 with respect to fiscal year 2016 included all of our operations. Based on our evaluation, our management has concluded that, as of October 1, 2016, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of October 1, 2016, has been audited by Ernst & Young, LLP ("EY"), our independent registered public accounting firm, who also audited our Consolidated Financial Statements. EY's attestation report on our internal controls over financial reporting is included herein.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the fourth quarter of fiscal year 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Delta Apparel, Inc. and subsidiaries

We have audited Delta Apparel, Inc. and subsidiaries' internal control over financial reporting as of October 1, 2016, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Delta Apparel, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Delta Apparel, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of October 1, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Delta Apparel, Inc. and subsidiaries as of October 1, 2016, and the related consolidated statements of operations, comprehensive income, equity and cash flows for the year ended October 1, 2016, of Delta Apparel, Inc. and subsidiaries, and our report dated November 29, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, GA
November 29, 2016

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference from the portions of the definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days following the end of our 2016 fiscal year under the headings "Proposal No. 1: Election of Directors", "Corporate Governance", "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance."

All of our employees, including our Chief Executive Officer and Chief Financial Officer (who is also our principal accounting officer), are required to abide by our business conduct policies so that our business is conducted in a consistently legal and ethical manner. We have adopted a code of business conduct and ethics known as our Ethics Policy Statement. The Ethics Policy Statement is available without charge on our website. In the event that we amend or waive any of the provisions of the Ethics Policy Statement applicable to our Chief Executive Officer or Chief Financial Officer, we intend to disclose the same on our website at www.deltaapparelinc.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference from the portions of the definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days following the end of our 2016 fiscal year under the headings "Compensation Discussion and Analysis", "Compensation Tables," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information relating to security ownership by certain beneficial owners and management is incorporated herein by reference from the portion of the definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days following the end of our 2016 fiscal year under the heading "Stock Ownership of Management and Principal Shareholders."

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. 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.

Set forth in the table below is certain information about securities issuable under our equity compensation plans as of October 1, 2016.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	595,638	\$ 11.57	156,667
Equity compensation plans not approved by security holders	86,000	\$ 8.30	—
Total	681,638	\$ 11.15	156,667

For additional information on our stock-based compensation plans, see Note 13 - Stock-Based Compensation to the Consolidated Financial Statements.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference from the portion of the definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days following the end of our 2016 fiscal year under the headings “Related Party Transactions” and “Corporate Governance”.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference from the portion of the definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days following the end of our 2016 fiscal year under the heading “Proposal No. 4: Ratification of Appointment of Independent Registered Public Accounting Firm”.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements:

Reports of Independent Registered Public Accounting Firms.

Consolidated Balance Sheets as of October 1, 2016, and October 3, 2015.

Consolidated Statements of Operations for the years ended October 1, 2016, October 3, 2015, and September 27, 2014.

Consolidated Statements of Comprehensive Income (Loss) for the years ended October 1, 2016, October 3, 2015, and September 27, 2014.

Consolidated Statements of Shareholders’ Equity for the years ended October 1, 2016, October 3, 2015, and September 27, 2014.

Consolidated Statements of Cash Flows for the years ended October 1, 2016, October 3, 2015, and September 27, 2014.

Notes to Consolidated Financial Statements.

Financial Statements Schedules:

The following consolidated financial statement schedule of Delta Apparel, Inc. and subsidiaries is included in Item 15(c):

Schedule II — Consolidated Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted. Columns omitted from schedules filed have been omitted because the information is not applicable.

(a)(3) Listing of Exhibits*

- 2.1 Amended and Restated Stock Purchase Agreement dated as of October 3, 2003, among Delta Apparel, Inc., MJS Acquisition Company, M. J. Soffe Co., James F. Soffe, John D. Soffe, and Anthony M. Cimaglia (excluding schedules and exhibits): Incorporated by reference to Exhibit 2.1 to the Company’s Form 8-K/A filed on October 17, 2003.
- 2.1.1 First Amendment to Amended and Restated Stock Purchase Agreement dated as of November 10, 2004, among Delta Apparel, Inc., M. J. Soffe Co., James F. Soffe, John D. Soffe, and Anthony M. Cimaglia: Incorporated by reference to Exhibit 2.2.1 to the Company’s Form 10-Q filed on February 9, 2005.
- 2.2 Asset Purchase Agreement dated as of August 22, 2005, among Delta Apparel, Inc., Junkfood Clothing Company, Liquid Blaino Designs, Inc. d/b/a Junkfood Clothing, Natalie Grof, and Blaine Halvorson (excluding schedules and exhibits): Incorporated by reference to Exhibit 2.1 to the Company’s Form 8-K filed on August 26, 2005.
- 2.3 Asset Purchase Agreement dated as of August 17, 2006, among Delta Apparel, Inc., Fun-Tees, Inc., Henry T. Howe, James C. Poag, Jr., Beverly H. Poag, Lewis G. Reid, Jr., Kurt R. Rawald, Larry L. Martin, Jr., Julius D. Cline and Marcus F. Weibel: Incorporated by reference to Exhibit 2.1 to the Company’s Form 8-K filed on August 21, 2006.
- 2.4 Asset Purchase Agreement dated as of November 18, 2004, among Delta Apparel, Inc. and Parkdale America LLC: Incorporated by reference to Exhibit 2.3 to the Company’s Form 10-Q filed on February 9, 2005.
- 2.4.1 First Amendment to Asset Purchase Agreement dated as of December 31, 2004, among Delta Apparel, Inc. and Parkdale America LLC: Incorporated by reference to Exhibit 2.3.1 to the Company’s Form 10-Q filed on February 9, 2005.

- 2.5 Asset Purchase Agreement dated as of August 27, 2013, among To The Game, LLC, Salt Life Holdings, LLC, Roger L. Combs, Sr., Donald R. Combs, Richard Thompson, and Michael T. Hutto (excluding schedules and exhibits): Incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on August 29, 2013.
- 3.1.1 Articles of Incorporation of the Company: Incorporated by reference to Exhibit 3.1 to the Company's Form 10-12B filed on December 30, 1999.
- 3.1.2 Amendment to Articles of Incorporation of the Company dated September 18, 2003: Incorporated by reference to Exhibit 3.1.2 to the Company's Form 10-Q filed on November 5, 2003.
- 3.1.3 Amendment to Articles of Incorporation of the Company dated April 28, 2005: Incorporated by reference to Exhibit 3.1.3 to the Company's Form 8-K filed on April 29, 2005.
- 3.1.4 Amendment to Articles of Incorporation of the Company dated November 8, 2007: Incorporated by reference to Exhibit 3.1.4 to the Company's Form 10-K filed on August 28, 2009.
- 3.2.1 Bylaws of the Company: Incorporated by reference to Exhibit 3.2.1 to the Company's Form 10-K filed on August 28, 2009.
- 3.2.2 Amendment to Bylaws of the Company adopted January 20, 2000: Incorporated by reference to Exhibit 3.2.2 to the Company's Form 10-K filed on August 28, 2009.
- 3.2.3 Amendment to Bylaws of the Company adopted February 17, 2000: Incorporated by reference to Exhibit 3.2.3 to the Company's Form 10-K filed on August 28, 2009.
- 3.2.4 Amendment to Bylaws of the Company adopted June 6, 2000: Incorporated by reference to Exhibit 3.2.4 to the Company's Form 10-K filed on August 28, 2009.
- 3.2.5 Amendment to Bylaws dated August 17, 2006: Incorporated by reference to Exhibit 3.2.5 to the Company's Form 10-K filed on August 28, 2009.
- 3.2.6 Amendment to Bylaws dated August 12, 2009: Incorporated by reference to Exhibit 3.2.6 to the Company's Form 10-K filed on August 28, 2009.
- 4.1 See Exhibits 3.1.1, 3.1.2, 3.1.3, 3.1.4, 3.2.1, 3.2.2, 3.2.3, 3.2.4, 3.2.5, and 3.2.6.
- 4.2 Specimen certificate for common stock, par value \$0.01 per share, of the Company: Incorporated by reference to Exhibit 4.2 to the Company's Form 10-12 B/A filed on May 3, 2000.
- 10.1 See Exhibits 2.1, 2.1.1, 2.2, 2.3, 2.4, 2.4.1 and 2.5.
- 10.2 Fourth Amended and Restated Loan and Security Agreement, dated May 27, 2011, among Delta Apparel, Inc., M.J. Soffe, LLC (successor by merger to TCX, LLC), Junkfood Clothing Company, To The Game, LLC, and Art Gun, LLC, the financial institutions named therein 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: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 3, 2011.
- 10.2.1 Consent and First Amendment to Fourth Amended and Restated Loan and Security Agreement, dated August 27, 2013, among Delta Apparel, Inc., M.J. Soffe, LLC (successor by merger to TCX, LLC), Junkfood Clothing Company, To The Game, LLC, and Art Gun, LLC, the financial institutions named therein 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: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on August 29, 2013.
- 10.2.2 Third Amendment to Fourth Amended and Restated Loan and Security Agreement, dated September 26, 2014, among Delta Apparel, Inc., M.J. Soffe, LLC (successor by merger to TCX, LLC), Junkfood Clothing Company, To The Game, LLC, and Art Gun, LLC, the financial institutions named therein 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: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 1, 2014.

- 10.2.3 Fourth Amendment to Fourth Amended and Restated Loan and Security Agreement, dated February 27, 2015, among Delta Apparel, Inc., M.J. Soffe, LLC (successor by merger to TCX, LLC), Junkfood Clothing Company, To The Game, LLC, and Art Gun, LLC, the financial institutions named therein 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: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 4, 2015.
- 10.2.4 Fifth Amended and Restated Credit Agreement, dated May 10, 2016, among Delta Apparel, Inc., M.J. Soffe, LLC, Junkfood Clothing Company, Salt Life, LLC (f/k/a To The Game, LLC), and Art Gun, LLC, the financial institutions named therein as Lenders, and Wells Fargo Bank, National Association, as Administrative Agent, Sole Lead Arranger, and Sole Book Runner: Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 12, 2016.
- 10.3 Delta Apparel, Inc. 2000 Stock Option Plan, Effective as of February 15, 2000, Amended & Restated March 15, 2000: Incorporated by reference to Exhibit 10.4 to the Company's Form 10-12B/A filed on March 31, 2000.***
- 10.4 Delta Apparel, Inc. Incentive Stock Award Plan, Effective February 15, 2000, Amended & Restated March 15, 2000: Incorporated by reference to Exhibit 10.5 to the Company's Form 10-12B/A filed on March 31, 2000.***
- 10.5 Delta Apparel, Inc. 2010 Stock Plan: Incorporated by reference to Exhibit 99.2 to the Company's Form 8-K filed on November 4, 2010, and Exhibit 1 to the Company's Proxy Statement filed on December 19, 2014.***
- 10.6 Yarn Supply Agreement dated as of January 5, 2005, between Delta Apparel, Inc. and Parkdale Mills, LLC and Parkdale America, LLC: Incorporated by reference to Exhibit 10.29 to the Company's Form 10-Q filed on February 9, 2005.**
- 10.6.1 First Amendment to Yarn Supply Agreement dated as of June 26, 2009 between Delta Apparel, Inc. and Parkdale Mills, LLC, and Parkdale America, LLC: Incorporated by reference to Exhibit 10.7.1 to the Company's Form 10-K filed on August 28, 2009.**
- 10.6.2 Second Amendment to Yarn Supply Agreement dated as of October 21, 2011 between Delta Apparel, Inc. and Parkdale Mills, LLC, and Parkdale America, LLC: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 25, 2011.**
- 10.6.3 Third Amendment to Yarn Supply Agreement dated as of March 11, 2013, between Delta Apparel, Inc. and Parkdale Mills, LLC, and Parkdale America, LLC: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on March 14, 2013.**
- 10.6.4 Fourth Amendment to Yarn Supply Agreement dated as of December 11, 2015, between Delta Apparel, Inc. and Parkdale Mills, LLC, and Parkdale America, LLC: Incorporated by reference to Exhibit 10.6.4 to the Company's Annual Report on Form 10-K filed on December 15, 2015.**
- 10.7 Employment Agreement between Delta Apparel, Inc. and Deborah H. Merrill dated December 31, 2015: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 7, 2016.***
- 10.8 Employment Agreement between Delta Apparel, Inc. and Martha M. Watson dated December 31, 2015: Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on January 7, 2016.***
- 10.9 Employment Agreement between Delta Apparel, Inc. and Steven E. Cochran dated December 31, 2012: Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on January 3, 2013.***
- 10.9.1 Amendment to Employment Agreement between Delta Apparel, Inc. and Steven E. Cochran dated January 28, 2013: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 29, 2013.***
- 10.11 Employment Agreement between Delta Apparel, Inc. and Robert W. Humphreys dated June 10, 2009: Incorporated by reference to Exhibit 10.11 to the Company's Form 10-K filed on August 28, 2009.***
- 10.11.1 First Amendment to Employment Agreement between Delta Apparel, Inc. and Robert W. Humphreys dated August 17, 2011: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on August 19, 2011.***
- 10.11.2 Second Amendment to Employment Agreement between Delta Apparel, Inc. and Robert W. Humphreys dated June 6, 2012: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 8, 2012.***
- 10.11.3 Third Amendment to Employment Agreement between Delta Apparel, Inc. and Robert W. Humphreys dated December 5, 2014: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 8, 2014.***

- 10.12 Employment Agreement between Delta Apparel, Inc. and Andrew R. DuVall dated January 18, 2016: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 19, 2016.***
- 10.13 Employment Agreement between Delta Apparel, Inc. and Justin M. Grow dated December 31, 2015.***
- 10.14 Form of Restricted Stock Unit and Performance Unit Award Agreement: Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 3, 2011.***
- 10.15 Delta Apparel Short-Term Incentive Compensation Plan: Incorporated by reference to Exhibit A to the Company's Proxy Statement filed on September 28, 2011, and Exhibit 1 to the Company's Proxy Statement filed on December 29, 2015.***
- 10.16 Form of Restricted Stock Unit and Performance Unit Award Agreement: Incorporated by reference to Exhibit 10.14 to the Company's Form 10-K filed on August 29, 2013.***
- 10.17 Agreement between Delta Apparel, Inc. and IMG Worldwide, Inc. dated December 6, 2013: Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 6, 2013.
- 10.18 Form of Restricted Stock Unit Award Agreement: Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K filed on December 10, 2014.***
- 10.19 Form of Performance Unit Award Agreement: Incorporated by reference to Exhibit 10.17 to the Company's Form 10-K filed on December 10, 2014.***
- 10.20 Form of Restricted Stock Unit and Performance Unit Award Agreement: Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on February 9, 2016.***
- 10.21 Form of Restricted Stock Unit Award Agreement: Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on February 9, 2016.***
- 16.1 February 13, 2014, Correspondence from Ernst & Young LLP to SEC: Incorporated by reference to Exhibit 16.1 to the Company's Form 8-K filed on February 13, 2014.
- 16.2 March 8, 2016, Correspondence from KPMG LLP to SEC: Incorporated by reference to Exhibit 16.1 to the Company's Form 8-K filed on March 9, 2016.
- 21 Subsidiaries of the Company.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 23.2 Consent of Independent Registered Public Accounting Firm.
- 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.

* All reports previously filed by the Company with the Commission pursuant to the Securities Exchange Act, and the rules and regulations promulgated thereunder, exhibits of which are incorporated to this Report by reference thereto, were filed under Commission File Number 1-15583.

** Portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission.

*** This is a management contract or compensatory plan or arrangement.

The registrant agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule or exhibit to any of the above filed exhibits upon request of the Commission.

(b) Exhibits

See Item 15(a)(3) above.

(c) Schedules

See information under (a)(1) and (2) of Item 15.

SIGNATURES

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

November 29, 2016

Date

By: /s/ Deborah H. Merrill

Deborah H. Merrill
Chief Financial Officer and
President, Delta Basics
(principal financial and accounting officer)

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

/s/ J. Bradley Campbell	11/29/2016	/s/ Robert W. Humphreys	11/29/2016
James B. Campbell	Date	Robert W. Humphreys	Date
Director		Chairman and Chief Executive Officer	
/s/ Sam P. Cortez	11/29/2016	/s/ Deborah H. Merrill	11/29/2016
Sam P. Cortez	Date	Deborah H. Merrill	Date
Director		Chief Financial Officer and President, Delta Basics (principal financial and accounting officer)	
/s/ Elizabeth J. Gatewood	11/29/2016	/s/ Suzanne B. Rudy	11/29/2016
Elizabeth J. Gatewood	Date	Suzanne B. Rudy	Date
Director		Director	
/s/ G. Jay Gogue	11/29/2016	/s/ Robert E. Staton, Sr.	11/29/2016
G. Jay Gogue	Date	Robert E. Staton, Sr.	Date
Director		Director	
		/s/ A. Alexander Taylor, II	11/29/2016
		A. Alexander Taylor, II	Date
		Director	

Delta Apparel, Inc. and Subsidiaries
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Delta Apparel, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheet of Delta Apparel, Inc. and subsidiaries as of October 1, 2016, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for the year ended October 1, 2016. Our audit also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delta Apparel, Inc. and subsidiaries at October 1, 2016, and the consolidated results of its operations and its cash flows for the year ended October 1, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Delta Apparel, Inc. and subsidiaries' internal control over financial reporting as of October 1, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, GA
November 29, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Delta Apparel, Inc.:

We have audited the accompanying consolidated balance sheet of Delta Apparel, Inc. and subsidiaries as of October 3, 2015, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended October 3, 2015. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule II listed in Section 15 (a) (2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Delta Apparel, Inc. and subsidiaries as of October 3, 2015, and the results of their operations and their cash flows for each of the years in the two-year period ended October 3, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Greenville, South Carolina

December 15, 2015, except for the last paragraph of Note 2(a), Note 2(aa) and Note 14, as to which the date is November 29, 2016

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

	October 1, 2016	October 3, 2015
Assets		
Cash and cash equivalents	\$ 397	\$ 300
Accounts receivable, net	63,013	61,921
Other receivables	596	820
Income tax receivable	86	—
Inventories, net	164,247	148,372
Prepaid expenses and other current assets	4,145	2,844
Total current assets	232,484	214,257
Property, plant and equipment, net	43,503	39,653
Goodwill	36,729	36,729
Intangible assets, net	20,922	22,162
Deferred income taxes	5,246	7,294
Other assets	5,768	4,808
Total assets	\$ 344,652	\$ 324,903
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable	\$ 51,395	\$ 53,349
Accrued expenses	21,706	20,996
Income taxes payable	—	87
Current portion of long-term debt	9,192	8,340
Total current liabilities	82,293	82,772
Long-term debt, less current maturities	106,603	93,872
Other liabilities	1,241	660
Contingent consideration	2,500	3,100
Total liabilities	\$ 192,637	\$ 180,404
Commitments and contingencies		
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 7,609,727 and 7,797,166 shares outstanding as of October 1, 2016 and October 3, 2015, respectively	96	96
Additional paid-in capital	60,847	59,399
Retained earnings	116,679	107,715
Accumulated other comprehensive loss	(112)	(429)
Treasury stock —2,037,245 and 1,849,806 shares as of October 1, 2016 and October 3, 2015, respectively	(25,495)	(22,282)
Total shareholders' equity	152,015	144,499
Total liabilities and shareholders' equity	\$ 344,652	\$ 324,903

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year Ended		
	October 1, 2016	October 3, 2015	September 27, 2014
Net sales	\$ 425,249	\$ 449,142	\$ 452,901
Cost of goods sold	331,750	360,823	367,160
Gross profit	93,499	88,319	85,741
Selling, general and administrative expenses	76,578	81,086	86,275
Change in fair value of contingent consideration	(600)	(500)	200
Gain on sale of business	—	(7,704)	—
Other (income) expense, net	(552)	(682)	927
Restructuring costs	1,741	—	—
Operating income (loss)	16,332	16,119	(1,661)
Interest expense	5,287	6,021	5,792
Earnings (loss) before provision for (benefit from) income taxes	11,045	10,098	(7,453)
Provision for (benefit from) income taxes	2,081	2,005	(6,493)
Net earnings (loss)	\$ 8,964	\$ 8,093	\$ (960)
Basic earnings (loss) per share	\$ 1.16	\$ 1.03	\$ (0.12)
Diluted earnings (loss) per share	\$ 1.12	\$ 1.00	\$ (0.12)
Weighted average number of shares outstanding	7,726	7,874	7,901
Dilutive effect of stock options and awards	253	206	—
Weighted average number of shares assuming dilution	7,979	8,080	7,901

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year Ended		
	October 1, 2016	October 3, 2015	September 27, 2014
Net earnings (loss)	\$ 8,964	\$ 8,093	\$ (960)
Other comprehensive income (loss) related to unrealized gain (loss) on derivatives, net of income tax	317	(160)	288
Comprehensive income (loss)	<u>\$ 9,281</u>	<u>\$ 7,933</u>	<u>\$ (672)</u>

See accompanying Notes to Consolidated Financial Statements.

Delta Apparel, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
(Amounts in thousands, except share amounts)

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	Treasury Stock		Total
	Shares	Amount	Paid-In Capital	Earnings	Income (Loss)	Shares	Amount	
Balance at September 28, 2013	9,646,972	\$ 96	\$ 59,425	\$ 100,582	\$ (557)	1,773,124	\$ (20,674)	\$ 138,872
Net loss and other comprehensive income	—	—	—	(960)	288	—	—	(672)
Stock grant	—	—	—	—	—	—	—	—
Stock options exercised	—	—	(32)	—	—	(82,500)	963	931
Excess tax benefits from option exercises	—	—	27	—	—	—	—	27
Purchase of common stock	—	—	—	—	—	78,674	(1,180)	(1,180)
Stock based compensation	—	—	229	—	—	—	—	229
Balance at September 27, 2014	9,646,972	96	59,649	99,622	(269)	1,769,298	(20,891)	138,207
Net earnings and other comprehensive loss	—	—	—	8,093	(160)	—	—	7,933
Stock grant	—	—	(663)	—	—	(42,244)	208	(455)
Stock options exercised	—	—	(304)	—	—	(17,584)	502	198
Reduction of tax benefits recognized from stock options	—	—	(673)	—	—	—	—	(673)
Purchase of common stock	—	—	—	—	—	140,336	(2,101)	(2,101)
Stock based compensation	—	—	1,390	—	—	—	—	1,390
Balance at October 3, 2015	9,646,972	96	59,399	107,715	(429)	1,849,806	(22,282)	144,499
Net earnings and other comprehensive income	—	—	—	8,964	317	—	—	9,281
Stock grant	—	—	(493)	—	—	(30,129)	330	(163)
Excess tax benefits from stock awards	—	—	89	—	—	—	—	89
Purchase of common stock	—	—	—	—	—	217,568	(3,543)	(3,543)
Stock based compensation	—	—	1,852	—	—	—	—	1,852
Balance at October 1, 2016	9,646,972	\$ 96	\$ 60,847	\$ 116,679	\$ (112)	2,037,245	\$ (25,495)	\$ 152,015

See accompanying Notes to Consolidated Financial Statements.

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

	Fiscal Year Ended		
	October 1, 2016	October 3, 2015	September 27, 2014
Operating activities:			
Net earnings (loss)	\$ 8,964	\$ 8,093	\$ (960)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation	8,295	8,204	8,156
Amortization of intangibles	1,330	1,338	1,337
Amortization of deferred financing fees	413	517	362
Excess tax benefits from stock awards and option exercises	(89)	(2)	(27)
Provision for (benefit from) deferred income taxes	2,048	786	(6,382)
(Benefit from) provision for allowances on accounts receivable, net	(1,007)	(175)	201
Non-cash stock compensation	1,852	1,390	229
Change in the fair value of contingent consideration	(600)	(500)	200
Loss on disposal of equipment	108	29	126
Fixed asset impairment charge	607	—	913
Gain on sale of The Game assets before transaction costs	—	(8,114)	—
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	140	6,236	(296)
Inventories, net	(15,662)	7,730	3,002
Prepaid expenses and other current assets	(1,302)	376	(747)
Other non-current assets	(346)	(308)	198
Accounts payable	(2,217)	(4,370)	4,698
Accrued expenses	(420)	158	2,503
Income taxes	(84)	1,447	(101)
Other liabilities	170	(528)	561
Net cash provided by operating activities	2,200	22,307	13,973
Investing activities:			
Purchases of property and equipment	(12,315)	(7,773)	(8,894)
Proceeds from sale of property and equipment	1,861	470	71
Proceeds from sale of The Game assets	—	14,913	—
Cash paid for businesses, net of cash acquired	(313)	—	—
Net cash (used in) provided by investing activities	(10,767)	7,610	(8,823)
Financing activities:			
Proceeds from long-term debt	488,093	497,364	493,360
Repayment of long-term debt	(474,510)	(525,125)	(498,121)
Payment of capital financing	(350)	(150)	—
Payment of financing fees	(1,018)	(42)	(384)
Repurchase of common stock	(3,477)	(2,023)	(1,180)
Proceeds from exercise of stock options	—	59	931
Payment of withholding taxes on stock awards and option exercises	(163)	(314)	—
Excess tax benefits from stock awards and option exercises	89	2	27
Net cash provided by (used in) financing activities	8,664	(30,229)	(5,367)
Net increase (decrease) in cash and cash equivalents	97	(312)	(217)
Cash and cash equivalents at beginning of period	300	612	829
Cash and cash equivalents at end of period	\$ 397	\$ 300	\$ 612
Supplemental cash flow information:			
Cash paid during the period for interest	\$ 4,273	\$ 4,803	\$ 4,698
Cash paid (received) during the period for income taxes, net of refunds received	\$ 308	\$ (328)	\$ 255
Non-cash financing activity—shortfall to excess tax benefit pool	\$ —	\$ 673	\$ —

Non-cash financing activity—capital lease agreement	\$	781	\$	—	\$	778
Accrued capital expenditures	\$	1,615	\$	—	\$	—
See accompanying Notes to Consolidated Financial Statements.						

Delta Apparel, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
October 1, 2016

NOTE 1—THE COMPANY

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 and accessories. 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 and in our retail stores. 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. 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.

NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation: Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of Delta Apparel and its wholly-owned domestic and foreign subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. We apply the equity method of accounting for investments in companies where we have less than a 50% ownership interest and over which we exert significant influence. We do not exercise control over these companies and do not have substantive participating rights. As such, these entities are not considered variable interest entities.

We operate our business in two distinct segments: basics and branded. 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.

Revisions

Certain amounts have been corrected in the October 3, 2015, balance sheet and related footnotes to conform to the classification of those balances as of October 1, 2016. These include the revision of deposits from Prepaid expenses and other current assets to Other assets in the amount of \$1.3 million and the revision of the current portion of interest rate swaps from Other liabilities to Accrued liabilities in the amount of \$0.3 million.

(b) Fiscal Year: We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. The 2016 and 2014 fiscal years were 52-week years that ended on October 1, 2016, and September 27, 2014, respectively. The 2015 fiscal year was a 53-week year that ended on October 3, 2015.

(c) Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts and disclosures of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are adjusted to reflect actual experience when necessary. Significant estimates and assumptions affect many items in our financial statements, for example: allowance for doubtful trade receivables, sales returns and allowances, inventory obsolescence, the carrying value of goodwill, and income tax assets and related valuation allowance. Our actual results may differ from our estimates.

(d) Cash and Cash Equivalents: Cash and cash equivalents consists of cash and temporary investments with original maturities of three months or less.

(e) Accounts Receivable: Accounts receivable consists primarily of receivables from our customers arising from the sale of our products, and we generally do not require collateral from our customers. We actively monitor our exposure to credit risk through the use of credit approvals and credit limits. Accounts receivable is presented net of reserves for allowances which include allowance for doubtful accounts, returns and allowances. The reserves for allowances were \$2.0 million and \$3.0 million, as of October 1, 2016, and October 3, 2015, respectively.

We estimate the net collectibility of our accounts receivable and establish an allowance for doubtful accounts based upon this assessment. In situations where we are aware of a specific customer's inability to meet its financial obligation, such as in the case of a bankruptcy filing, a specific reserve for bad debts is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. For all other customers, reserves are determined through analysis of the aging of accounts receivable balances, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms. In addition, reserves are established for other concessions that have been extended to customers, including advertising, markdowns and other accommodations, net of historical recoveries. These reserves are determined based upon historical deduction trends and evaluation of current market conditions. Bad debt expense was less than 1% of net sales in fiscal years 2016, 2015, and 2014.

(f) Inventories: We state inventories at the lower of cost or market using the first-in, first-out method. Inventory cost includes materials, labor and manufacturing overhead on manufactured inventory, and all direct and associated costs, including inbound freight, to acquire sourced products. See Note 2(y) for further information regarding yarn procurements. We regularly review inventory quantities on hand and record reserves for obsolescence, excess quantities, irregulars and slow moving inventory based on historical selling prices, current market conditions, and forecasted product demand to reduce inventory to its net realizable value.

(g) Property, Plant and Equipment: Property, plant and equipment are stated at cost. We depreciate and amortize our assets on a straight-line method over the estimated useful lives of the assets, which range from three to twenty-five years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Assets that we acquire under non-cancelable leases that meet the criteria of capital leases are capitalized in property, plant and equipment and amortized over the useful lives of the related assets. When we retire or dispose of assets, the costs and accumulated depreciation or amortization are removed from the respective accounts and we recognize any related gain or loss. Repairs and maintenance costs are charged to expense when incurred. Major replacements that substantially extend the useful life of an asset are capitalized and depreciated.

(h) Internally Developed Software Costs. We account for internally developed software in accordance with FASB Codification No. 350-40, *Intangibles-Goodwill and Other; Internal-Use Software*. After technical feasibility has been established, we capitalize the cost of our software development process, including payroll and payroll benefits, by tracking the software development hours invested in the software projects. We amortize our software development costs in accordance with the estimated economic life of the software, which is generally three to ten years.

(i) Impairment of Long-Lived Assets (Including Amortizable Intangible Assets): In accordance with FASB Codification No. 360, *Property, Plant, and Equipment*, our long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When evaluating assets for potential impairment, we compare the carrying amount of the asset to the undiscounted future net cash flows expected to be generated by the asset. If impairment is indicated, the asset is permanently written down to its estimated fair market value (based upon future discounted cash flows) and an impairment loss is recognized.

(j) Goodwill and Intangible Assets: We recorded goodwill and intangible assets with definite lives, including trade names and trademarks, customer relationships, technology, and non-compete agreements, in conjunction with the acquisitions of Salt Life, Junkfood, and Art Gun. Intangible assets are amortized based on their estimated economic lives, ranging from four to twenty years. Goodwill represents the excess of the purchase price over the fair value of net identified tangible and intangible assets and liabilities acquired, and is not amortized. The total amount of goodwill is expected to be deductible for tax purposes. See Note 7 — Goodwill and Intangible Assets for further details.

(k) Impairment of Goodwill: We evaluate the carrying value of goodwill annually or more frequently if events or circumstances indicate that an impairment loss may have occurred. Such circumstances could include, but are not limited to, a significant adverse change in business climate, increased competition or other economic conditions.

We complete our annual impairment test of goodwill on the first day of our third fiscal quarter. We estimate fair value of the applicable reporting unit or units using a discounted cash flow methodology. This represents a level 3 fair value measurement as defined under ASC 820, *Fair Value Measurements and Disclosures*, since the inputs are not readily observable in the marketplace. The goodwill impairment testing process involves the use of significant assumptions, estimates and judgments with respect to a variety of factors, including sales, gross margins, selling, general and administrative expenses, capital expenditures, cash flows and the selection of an appropriate discount rate, all of which are subject to inherent uncertainties and subjectivity. When we perform goodwill impairment testing, our assumptions are based on annual business plans and other forecasted results, which we believe represent those of a market participant. We select a discount rate, which is used to reflect market-based estimates of the risks associated with the projected cash flows, based on the best information available as of the date of the impairment assessment. Based on the annual impairment analysis, there is not an impairment on the goodwill associated with Junkfood and Salt Life, the only goodwill recorded on our financial statements.

Given the current macro-economic environment and the uncertainties regarding its potential impact on our business, there can be no assurance that our estimates and assumptions used in our impairment tests will prove to be accurate predictions of the future. If our assumptions regarding forecasted cash flows are not achieved, it is possible that an impairment review may be triggered and goodwill may be impaired.

(l) Contingent Consideration: At the end of each reporting period, we are required to remeasure the fair value of the contingent consideration related to the Salt Life and Art Gun acquisitions in accordance with FASB Codification No. 805, *Business Combinations* (“ASC 805”). Based on the operating results and projections, we analyzed the fair value of the contingent consideration for both Salt Life and Art Gun as of October 1, 2016. The estimated fair value of the contingent consideration for Salt Life was \$2.5 million and \$3.1 million at October 1, 2016, and October 3, 2015, respectively. No contingent consideration is expected to be paid under the terms of the Art Gun arrangement.

(m) Self-Insurance Reserves: Prior to January 1, 2015, our medical, prescription and dental care benefits were primarily self-insured. Effective January 1, 2015, our medical and prescription benefits became fully insured, but our dental insurance remained self-insured. Our prior self-insurance accruals were based on claims filed and estimates of claims incurred but not reported. We developed estimates

of claims incurred but not reported based upon the historical time it takes for a claim to be reported and paid, and historical claim amounts. Self-insurance reserves were less than \$0.1 million as of October 1, 2016, and October 3, 2015.

(n) Revenue Recognition: Revenues from product sales are recognized when ownership is transferred to the customer, which includes not only the passage of title, but also the transfer of the risk of loss related to the product. At this point, the sales price is fixed and determinable, and we are reasonably assured of the collectibility of the sale. The majority of our sales are shipped FOB shipping point and revenue is therefore recognized when the goods are shipped to the customer. For sales that are shipped FOB destination point, we do not recognize the revenue until the goods are received by the customer. Shipping and handling charges billed to our customers are included in net revenue and the related costs are included in cost of goods sold. Revenues are reported on net sales basis, which is computed by deducting product returns, discounts and estimated returns and allowances. We estimate returns and allowances on an ongoing basis by considering historical and current trends.

Royalty revenue is primarily derived from royalties paid to us by licensees of our intellectual property rights, which include, among other things, trademarks and copyrights. We execute license agreements with our licensees detailing the terms of the licensing arrangement. Royalties are generally recognized upon receipt of the licensees' royalty report, in accordance with the terms of the executed license agreement, and when all other revenue recognition criteria have been met.

(o) Sales Tax: Sales tax collected from customers and remitted to various government agencies are presented on a net basis (excluded from revenues) in the Consolidated Statements of Operations.

(p) Cost of Goods Sold: We include in cost of goods sold all manufacturing and sourcing costs incurred prior to the receipt of finished goods at our distribution facilities. The cost of goods sold principally includes product cost, purchasing costs, inbound freight charges, insurance, inventory write-downs, and depreciation and amortization expense associated with our manufacturing and sourcing operations. Our gross margins may not be comparable to other companies, since some entities include costs related to their distribution network in cost of goods sold and we exclude them from gross margin, including them instead in selling, general and administrative expenses.

(q) Selling, General and Administrative Expense: We include in selling, general and administrative expenses costs incurred subsequent to the receipt of finished goods at our distribution facilities, such as the cost of stocking, warehousing, picking and packing, and shipping goods for delivery to our customers. Distribution costs included in selling, general and administrative expenses totaled \$15.1 million, \$16.8 million and \$16.9 million in fiscal years 2016, 2015 and 2014, respectively. In addition, selling, general and administrative expenses include costs related to sales associates, administrative personnel cost, advertising and marketing expenses, royalty payments on licensed products, and other general and administrative expenses.

(r) Advertising Costs: All costs associated with advertising and promoting our products are expensed during the year in which they are incurred and are included in selling, general and administrative expenses in the Consolidated Statements of Operations. We participate in cooperative advertising programs with our customers. Depending on the customer, our defined cooperative programs allow the customer to use from 2% to 5% of its net purchases from us towards advertisements of our products. Because our products are being specifically advertised, we are receiving an identifiable benefit resulting from the consideration for cooperative advertising. Therefore, pursuant to FASB Codification No. 605-50, *Revenue Recognition, Customers Payments and Incentives*, we record cooperative advertising costs as a selling expense and the related cooperative advertising reserve as an accrued liability. Advertising costs totaled \$4.4 million, \$4.7 million and \$3.6 million in fiscal years 2016, 2015 and 2014, respectively. Included in these costs were \$1.1 million in fiscal years 2016, 2015 and 2014 related to our cooperative advertising programs.

(s) Stock-Based Compensation: Stock-based compensation cost is accounted for under the provisions of FASB Codification No. 718, *Compensation – Stock Compensation* ("ASC 718"), the Securities and Exchange Commission Staff Accounting Bulletin No. 107 ("SAB 107"), and the Securities and Exchange Commission Staff Accounting Bulletin No. 110 ("SAB 110"). ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized as expense over the vesting period using a fair value method. We estimate the fair value of stock options using the Black-Scholes options pricing model. The fair value of our restricted stock awards is the quoted market value of our stock on the grant date. For performance-based stock awards, in the event we determine it is no longer probable that we will achieve the minimum performance criteria specified in the award, we reverse all of the previously recognized compensation expense in the period such a determination is made. We recognize the fair value, net of estimated forfeitures, as a component of selling, general and administrative expense in the Consolidated Statements of Operations over the vesting period.

(t) Income Taxes: We account for income taxes under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(u) Earnings per Share: We compute basic earnings per share ("EPS") by dividing net income by the weighted average number of common shares outstanding during the year pursuant to FASB Codification No. 260, *Earnings Per Share* ("ASC 260"). Basic EPS includes no dilution. Diluted EPS is calculated, as set forth in ASC 260, by dividing net income by the weighted average number of common shares outstanding adjusted for the issuance of potentially dilutive shares. Potential dilutive shares consist of common stock issuable under the assumed exercise of outstanding stock options and awards using the treasury stock method. This method, as required by ASC

718, assumes that the potential common shares are issued and the proceeds from the exercise, along with the amount of compensation expense attributable to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the number of shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted EPS. Outstanding stock options and awards that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of diluted EPS since their inclusion would have an anti-dilutive effect on EPS.

(v) Foreign Currency Translation: Our functional currency for our foreign operated manufacturing facilities is the United States dollar. We remeasure those assets and liabilities denominated in foreign currencies using exchange rates in effect at each balance sheet date. Property, plant and equipment and the related accumulated depreciation or amortization are recorded at the exchange rates in effect on the date we acquired the assets. Revenues and expenses denominated in foreign currencies are remeasured using average exchange rates for all periods presented. We recognize the resulting foreign exchange gains and losses as a component of other income and expense in the Consolidated Statements of Operations. These gains and losses are immaterial for all periods presented.

(w) Fair Value of Financial Instruments: We use financial instruments in the normal course of our business. The carrying values approximate fair values for financial instruments that are short-term in nature, such as cash, accounts receivable and accounts payable. We estimate that the carrying value of our long-term debt approximates fair value based on the current rates offered to us for debt of the same remaining maturities.

(x) Other Comprehensive Income (Loss): Other Comprehensive Income (Loss) consists of net earnings (loss) and unrealized gains (losses) from cash flow hedges, net of tax. Accumulated other comprehensive loss contained in the shareholders' equity section of the Consolidated Balance Sheets was \$0.1 million and \$0.4 million as of October 1, 2016, and October 3, 2015, respectively, and was related to interest rate swap agreements.

(y) Yarn and Cotton Procurements: We have a supply agreement with Parkdale to supply our yarn requirements until December 31, 2018. 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.

(z) Derivatives: From time to time we enter into forward contracts, option agreements or other instruments to limit our exposure to fluctuations in interest rates and raw material prices with respect to long-term debt and cotton purchases, respectively. We determine at inception whether the derivative instruments will be accounted for as hedges.

We account for derivatives and hedging activities in accordance with FASB Codification No. 815, *Derivatives and Hedging* ("ASC 815"), as amended. ASC 815 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. It requires the recognition of all derivative instruments as either assets or liabilities in the Consolidated Balance Sheets and measurement of those instruments at fair value. The accounting treatment of changes in fair value depends upon whether or not a derivative instrument is designated as a hedge and, if so, the type of hedge. We include all derivative instruments at fair value in our Consolidated Balance Sheets. For derivative financial instruments related to the production of our products that are not designated as a hedge, we recognize the changes in fair value in cost of sales. For derivatives designated as cash flow hedges, to the extent effective, we recognize the changes in fair value in accumulated other comprehensive income (loss) until the hedged item is recognized in income. Any ineffectiveness in the hedge is recognized immediately in income in the line item that is consistent with the nature of the hedged risk. We formally document all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions, at the inception of the transactions.

We are exposed to counterparty credit risks on all derivatives. Because these amounts are recorded at fair value, the full amount of our exposure is the carrying value of these instruments. We only enter into derivative transactions with well established institutions and therefore we believe the counterparty credit risk is minimal.

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. During fiscal year 2016 we entered into various 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 realized gains and losses associated with them were recorded within cost of goods sold on the Consolidated Statement of Operations. There were no significant raw material option agreements that were purchased during fiscal years 2016, 2015 or 2014.

In September 2013, we entered into four interest rate swap agreements, as follows:

	Effective Date	Notational Amount	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

During fiscal years 2016, 2015, and 2014, the interest rate swap agreements had minimal ineffectiveness and were considered highly-effective hedges.

The changes in fair value of the interest rate swap agreements resulted in an AOCI gain, net of taxes, of \$0.3 million for the year ended October 1, 2016, an AOCI loss, net of taxes, of \$0.2 million for the year ended October 3, 2015, an AOCI gain, net of taxes of \$0.3 million for the year ended September 27, 2014. See Note 16(d) - Derivatives for further details.

(aa) Recently Adopted Accounting Pronouncements:

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, ("ASU 2015-17"). This new guidance requires businesses to classify deferred tax liabilities and assets on their balance sheets as noncurrent. Under existing accounting standards, a business must separate deferred income tax liabilities and assets into current and noncurrent. ASU 2015-17 was issued as a way to simplify the way businesses classify deferred tax liabilities and assets on their balance sheets. Public companies must apply ASU 2015-17 to fiscal years beginning after December 15, 2016. Companies must follow the requirements for interim periods within those fiscal years, but early adoption at the beginning of an interim or annual period is allowed for all entities. ASU 2015-17 was adopted in our fiscal year beginning October 4, 2015. The implementation of ASU 2015-17 was applied retroactively to the October 3, 2015, Consolidated Balance Sheet included in this Form 10-K. As a result of this retroactive application, current deferred income tax assets of \$7.3 million have been netted with noncurrent deferred income tax liabilities of \$7 thousand and reclassified to noncurrent deferred income tax assets in the October 3, 2015, Consolidated Balance Sheet.

(ab) Recently Issued Accounting Pronouncements 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 permitted only for annual reporting periods beginning after December 15, 2016. ASU 2014-09 will therefore be effective in 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 or market. ASU 2015-11 replaces market with net realizable value. Net realizable value is the estimated selling price 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 will therefore be 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.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, (ASU 2016-02). ASU 2016-02 requires lessees to recognize assets and liabilities for most leases. All leases will be required to be recorded on the balance sheet with the exception of short-term leases. Early application is permitted. The guidance must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. ASU 2016-02 will therefore be effective in our fiscal year beginning September 29, 2019. We are evaluating the effect that ASU 2016-02 will have on our Consolidated Financial Statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, (ASU 2016-09). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. ASU 2016-09 will therefore be effective in our fiscal year beginning October 1, 2017. We are evaluating the effect that ASU 2016-09 will have on our Consolidated Financial Statements and related disclosures.

NOTE 3—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 strengthened our balance sheet and enabled 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 which was subsequently settled. The transaction did not include accounts receivable which we subsequently collected in the normal course of business, and certain undecorated apparel inventory. 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 Consolidated Statements of Operations in the year ended October 3, 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.

NOTE 4—RESTRUCTURING PLAN

On May 10, 2016, in connection with our ongoing strategic manufacturing initiatives, we announced plans to restructure our manufacturing operations with the closing of our textile manufacturing facility in Maiden, North Carolina, the consolidation of sew facilities in Mexico, and the expansion of production at our lower-cost Ceiba Textiles facility in Honduras. In September, 2016, we sold the real estate and certain machinery, equipment and supply parts used in the Maiden facility for approximately \$1.7 million. As part of the closing of the Maiden facility and the expansion of operations at our offshore facilities, we incurred the following costs (in thousands):

	Fiscal Year Ended	
	October 1, 2016	
Excess manufacturing costs related to the shutdown and start-up operations	\$	1,096
Total expenses included in cost of goods sold		1,096
Employee termination costs		597
Fixed asset impairment		607
Inventory and supply part impairment		144
Other costs to exit facility		393
Total restructuring costs		1,741
Total manufacturing realignment expenses	\$	2,837

All of these expenses were recorded in our basics segment. We do not expect to incur any significant additional costs related to the manufacturing initiative in fiscal year 2017. At the end of 2016, we had paid \$0.4 million in employee termination benefits and had \$0.2 million accrued.

NOTE 5—INVENTORIES

Inventories, net of reserves of \$8.8 million and \$8.4 million as of October 1, 2016, and October 3, 2015, respectively, consist of the following (in thousands):

	October 1, 2016	October 3, 2015
Raw materials	\$ 11,442	\$ 11,412
Work in process	18,158	19,071
Finished goods	134,647	117,889
	\$ 164,247	\$ 148,372

Raw materials include finished yarn and direct materials for the basics segment, undecorated garments for the Art Gun and Junkfood businesses and direct embellishment materials for the branded segment.

NOTE 6—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (in thousands, except economic life data):

	Estimated Useful Life	October 1, 2016	October 3, 2015
Land and land improvements	25 years	\$ 572	\$ 996
Buildings	20 years	3,369	8,706
Machinery and equipment	10 years	72,068	80,843
Computers and software	3-10 years	20,889	20,635
Furniture and fixtures	7 years	1,977	3,126
Leasehold improvements	3-10 years	3,686	2,645
Vehicles and related equipment	5 years	808	821
Construction in progress	N/A	3,719	3,256
		107,088	121,028
Less accumulated depreciation and amortization		(63,585)	(81,375)
		<u>\$ 43,503</u>	<u>\$ 39,653</u>

NOTE 7—GOODWILL AND INTANGIBLE ASSETS

Goodwill and components of intangible assets consist of the following (in thousands, except economic life data):

	October 1, 2016			October 3, 2015			Economic Life
	Cost	Accumulated Amortization	Net Value	Cost	Accumulated Amortization	Net Value	
Goodwill	\$ 36,729	\$ —	\$ 36,729	\$ 36,729	\$ —	\$ 36,729	N/A
Intangibles:							
Tradename/trademarks	\$ 17,620	\$ (2,514)	\$ 15,106	\$ 17,530	\$ (1,896)	\$ 15,634	20 - 30 yrs
Customer relationships	7,220	(4,016)	3,204	7,220	(3,664)	3,556	20 yrs
Technology	1,220	(826)	394	1,220	(703)	517	10 yrs
License Agreements	2,100	(320)	1,780	2,100	(216)	1,884	15 - 30 yrs
Non-compete agreements	1,287	(849)	438	1,287	(716)	571	4 – 8.5 yrs
Total intangibles	<u>\$ 29,447</u>	<u>\$ (8,525)</u>	<u>\$ 20,922</u>	<u>\$ 29,357</u>	<u>\$ (7,195)</u>	<u>\$ 22,162</u>	

Goodwill represents the acquired goodwill net of the cumulative impairment losses of \$0.6 million. In August 2016, we acquired Coast Apparel for \$313 thousand, which resulted in additional intangible assets of \$90 thousand. Amortization expense for intangible assets was \$1.3 million for the years ended October 1, 2016, October 3, 2015, and September 27, 2014. Amortization expense is estimated to be approximately \$1.3 million for fiscal years 2017, 2018 and 2019, approximately \$1.2 million for fiscal year 2020, and approximately \$1.1 million for fiscal year 2021.

NOTE 8—ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	October 1, 2016	October 3, 2015
Accrued employee compensation and benefits	\$ 12,899	\$ 10,704
Taxes accrued and withheld	1,003	1,455
Accrued insurance	263	349
Accrued advertising	256	363
Accrued royalties	1,653	2,173
Accrued commissions	460	512
Accrued freight	1,105	1,501
Other	4,067	3,939
	<u>\$ 21,706</u>	<u>\$ 20,996</u>

During the fourth quarter of fiscal year 2014, we implemented certain initiatives to improve our results of operations and financial position. As a result of these initiatives, approximately \$4.0 million in expenses were recognized during the fourth quarter of fiscal year 2014, consisting of \$2.2 million in severance expense, \$0.9 million in expense related to reduced manufacturing production, and \$1.0 million in fixed asset impairments.

These expenses were reported in our Consolidated Statement of Operations as follows (in thousands):

	September 27, 2014
Cost of goods sold	\$ 868
Selling, general and administrative expenses	2,169
Other expense	984
	<u>\$ 4,021</u>

During fiscal years 2016 and 2015, no additional expenses were incurred in association with these 2014 strategic initiatives. As of October 3, 2015, \$0.5 million of these expenses were accrued and reported on our Consolidated Balance Sheet. No expenses remained accrued as of October 1, 2016.

NOTE 9—LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	October 1, 2016	October 3, 2015
Revolving U.S. credit facility, interest at base rate or adjusted LIBOR rate plus an applicable margin (interest at 2.7% on October 1, 2016) due May 2021	\$ 92,137	\$ —
Revolving credit facility, interest at base rate or adjusted LIBOR rate plus an applicable margin (interest at 2.7% on October 3, 2015) due May 2017	—	79,550
Revolving credit facility with Banco Ficohsa, a Honduran bank, interest at 8% due March 2019 (denominated in U.S. dollars)	5,000	4,390
Term loan with Banco Ficohsa, a Honduran bank, interest at 7%, monthly installments beginning March, 2011 through March 2018 (denominated in U.S. dollars)	1,459	2,432
Term loan with Banco Ficohsa, a Honduran bank, interest at 7.5%, monthly installments beginning November 2014 through December 2020 (denominated in U.S. dollars)	2,600	3,150
Term loan with Banco Ficohsa, a Honduran bank, interest at 8%, monthly installments beginning June 2016 through April 2022 (denominated in U.S. dollars)	1,650	1,881
Term loan with Banco Ficohsa, a Honduran bank, interest at 8%, monthly installments beginning June 2016 through July 2017 (denominated in U.S. dollars)	4,833	—
Salt Life acquisition promissory note, imputed interest at 1.92%, one-time installment due September 30, 2014, quarterly installments beginning April 2015 through June 2016	—	2,979
Salt Life acquisition promissory note, imputed interest at 3.62%, quarterly payments beginning September 2016 through June 2019	8,116	7,830
	<u>115,795</u>	<u>102,212</u>
Less current installments	<u>(9,192)</u>	<u>(8,340)</u>
Long-term debt, excluding current installments	<u>\$ 106,603</u>	<u>\$ 93,872</u>

On May 10, 2016, we amended our U.S. revolving credit facility and entered into a Fifth Amended and Restated Credit Agreement (the "Amended Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as Administrative Agent, the Sole Lead Arranger and the Sole Book Runner, and the financial institutions named therein as Lenders, which are Wells Fargo, PNC Bank, National Association and Regions Bank. Our subsidiaries, M.J. Soffe, LLC, Junkfood Clothing Company, Salt Life, LLC, and Art Gun, LLC (together with the Company, the "Companies"), are co-borrowers under the Amended Credit Agreement.

The Amended Credit Agreement amends and restates our Fourth Amended and Restated Loan and Security Agreement dated May 27, 2011, which was amended on four occasions and had a maturity date of May 27, 2017. Bank of America, N.A. departed the syndicate of Lenders and Regions Bank joined the syndicate of Lenders for the Amended Credit Agreement. Bank of America, N.A. also ceased to serve as the syndication agent for the facility, and Merrill Lynch, Pierce, Fenner and Smith Incorporated is no longer a joint book runner with Wells Fargo.

The Amended Credit Agreement allows us to borrow up to \$145 million (subject to borrowing base limitations), including a maximum of \$25 million in letters of credit. Provided that no event of default exists, we have the option to increase the maximum credit to \$200 million (subject to borrowing base limitations), conditioned upon the Administrative Agent's ability to secure additional commitments and customary closing conditions. The credit facility matures on May 10, 2021. We paid \$1.0 million in financing costs associated with the Amended Credit Agreement.

Our U.S. revolving credit facility is secured by a first-priority lien on substantially all of the real and personal property of Delta Apparel, Junkfood, Soffe, Salt Life, and Art Gun. All loans bear interest at rates, at the Company's option, based on either (a) an adjusted LIBOR rate plus an applicable margin or (b) a base rate plus an applicable margin, with the base rate equal to the greatest of (i) the federal funds rate plus 0.5%, (ii) the LIBOR rate plus 1.0%, or (iii) the prime rate announced by Wells Fargo, National Association. The facility requires monthly installment payments of approximately \$0.2 million in connection with fixed asset amortizations, and these amounts reduce the amount of availability under the facility. Annual facility fees are 0.25% or 0.375% (subject to average excess availability) of the amount by which \$145 million exceeds the average daily principal balance of the outstanding loans and letters of credit accommodations. The annual facility fees are charged monthly based on the principal balances during the immediately preceding month.

At October 1, 2016, we had \$92.1 million outstanding under our U.S. revolving credit facility at an average interest rate of 2.7%, and had the ability to borrow an additional \$32.8 million. This credit facility includes the financial covenant that if the amount of availability falls below the threshold amounts set forth in the Amended Credit Agreement, our Fixed Charge Coverage Ratio ("FCCR") (as defined in the Amended Credit 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 as of October 1, 2016, because our availability was above the minimum required under the Amended Credit Agreement. At October 1, 2016, our FCCR was above the required 1.1 to 1.0 ratio and, therefore, we would have satisfied our financial covenant had we been subject to it. In addition, the credit facility includes customary conditions to funding, representations and warranties, covenants, and events of default. The covenants include, among other things, limitations on asset sales, consolidations, mergers, liens, indebtedness, loans, investments, guaranties, acquisitions, dividends, stock repurchases, and transactions with affiliates.

Proceeds of the loans made pursuant to the Amended Credit Agreement may be used for permitted acquisitions (as defined in the Amended Credit Agreement), general operating expenses, working capital, other corporate purposes, and to finance credit facility fees and expenses. Pursuant to the terms of our credit facility, we are allowed to make cash dividends and stock repurchases if (i) as of the date of the payment or repurchase and after giving effect to the payment or repurchase, we have availability on that date of not less than 15% of the lesser of the borrowing base or the commitment, and average availability for the 30-day period immediately preceding that date of not less than 15% of the lesser of the borrowing base or the commitment; and (ii) the aggregate amount of dividends and stock repurchases after May 10, 2016, does not exceed \$10 million plus 50% of our cumulative net income (as defined in the Amended Credit Agreement) from the first day of the third quarter of fiscal year 2016 to the date of determination. At October 1, 2016, and October 3, 2015, there was \$10.7 million and \$7.3 million, respectively, of retained earnings free of restrictions to make cash dividends or stock repurchases.

The Amended Credit 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 facility as long-term debt.

In August 2013, we acquired Salt Life and issued two promissory notes in the aggregate principal amount 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 October 1, 2016, the discounted value of the promissory note was \$8.1 million.

On December 6, 2013, we entered into an agreement (the "IMG Agreement") with IMG Worldwide, Inc. ("IMG") that provided for the termination of the Salt Life brand license agreements entered into between Delta and IMG (as agent on behalf of Salt Life Holdings) prior to the acquisition of Salt Life as well as the agency agreement entered into between Salt Life Holdings and IMG prior to the acquisition of Salt Life. In addition, the IMG Agreement provides that Delta and Salt Life Holdings are released from all obligations and liabilities under those agreements or relating to the acquisition of Salt Life. Pursuant to the IMG Agreement, Salt Life and IMG entered into a separate, 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 the existing arrangements. There was a \$3,000,000 indemnification asset that was recorded as part of the purchase of Salt Life that 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 year ended October 3, 2015, we made payments of \$0.8 million in accordance with the terms of the agreement. As of October 3, 2015 there were 3 quarterly installments of \$195 thousand remaining, and we had recorded the fair value of the liability as of October 3, 2015, in our financials with \$0.6 million in accrued expenses. During the year ended October 1, 2016, we made the final payments of \$0.6 million in accordance with the terms of the agreement and no amounts remain accrued in our financials as of October 1, 2016.

Since March, 2011, we have entered into loans and a revolving credit facility with Banco Ficohsa, a Honduran bank, in order to finance both the operations and capital expansion of our Honduran facilities. Each of these loans are secured by a first-priority lien on the assets of our Honduran operations, and are not guaranteed by our U.S. entities. These loans are denominated in U.S. dollars and the carrying value of the debt approximates the fair value. The revolving credit facility requires minimum payments during each six-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 permits us to re-borrow funds up to the amount repaid, subject to certain covenants, and we intend to re-borrow funds, subject to the objective covenants, the amounts have been classified as long-term debt. Information about these loans and the outstanding balance as of October 1, 2016, is listed as part of the long-term debt schedule above.

The aggregate maturities of debt at October 1, 2016, are as follows (in thousands):

Fiscal Year	Amount
2017	\$ 9,192
2018	7,955
2019	10,835
2020	4,469
2021	83,149
Thereafter	195
	<u>\$ 115,795</u>

NOTE 10—INCOME TAXES

The provision for income taxes consists of the following (in thousands):

	Period ended		
	October 1, 2016	October 3, 2015	September 27, 2014
Current:			
Federal	\$ 36	\$ —	\$ —
State	78	60	79
Foreign	179	186	158
Total current	<u>\$ 293</u>	<u>\$ 246</u>	<u>\$ 237</u>
Deferred:			
Federal	\$ 1,462	\$ 1,320	\$ (5,807)
State	326	439	(923)
Total deferred	<u>1,788</u>	<u>1,759</u>	<u>(6,730)</u>
Provision for (benefit from) income taxes	<u>\$ 2,081</u>	<u>\$ 2,005</u>	<u>\$ (6,493)</u>

For financial reporting purposes our income (loss) before provision for (benefit from) income taxes includes the following components (in thousands):

	Period ended		
	October 1, 2016	October 3, 2015	September 27, 2014
United States	\$ 3,966	\$ 3,434	\$ (16,832)
Foreign	7,079	6,664	9,379
	<u>\$ 11,045</u>	<u>\$ 10,098</u>	<u>\$ (7,453)</u>

A reconciliation between actual provision for (benefit from) income taxes and the provision for income taxes computed using the federal statutory income tax rate of 34.0% is as follows (in thousands):

	Period ended		
	October 1, 2016	October 3, 2015	September 27, 2014
Income tax expense at the statutory rate	\$ 3,755	\$ 3,433	\$ (2,533)
State income tax expense, net of federal income tax effect	447	374	(893)
Impact of state rate changes	116	—	—
Rate difference and nondeductible items in foreign jurisdictions	54	(30)	(55)
Impact of foreign earnings in tax-free zone	(2,319)	(2,168)	(3,098)
Valuation allowance adjustments	(71)	—	4
Nondeductible compensation	—	335	—
Nondeductible amortization and other permanent differences	96	81	76
Other	3	(20)	6
Provision for (benefit from) income taxes	<u>\$ 2,081</u>	<u>\$ 2,005</u>	<u>\$ (6,493)</u>

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. We have not provided deferred taxes on the \$66.3 million of undistributed earnings of our foreign subsidiaries where the earnings are considered to be permanently reinvested. The undistributed earnings would become taxable in the United States if we decided to repatriate earnings for business, tax or foreign exchange reasons. If we made that decision, U.S. income taxes would be provided for net of foreign taxes already paid. The determination of the unrecognized deferred tax liability associated with these unremitted earnings is not practical at this time.

Significant components of our deferred tax assets and liabilities are as follows (in thousands):

	October 1, 2016	October 3, 2015
Deferred tax assets:		
Federal net operating loss carryforwards	\$ 6,256	\$ 7,842
State net operating loss carryforwards	1,784	2,362
Charitable donation carryforward	—	28
Derivative — interest rate contracts	70	268
Alternative minimum tax credit carryforward	135	99
Currently nondeductible accruals	7,613	6,029
Gross deferred tax assets	15,858	16,628
Less valuation allowance — state net operating loss	(131)	(202)
Net deferred tax assets	<u>15,727</u>	<u>16,426</u>
Deferred tax liabilities:		
Depreciation	(2,868)	(2,941)
Goodwill and intangibles	(7,463)	(6,024)
Other	(150)	(167)
Gross deferred tax liabilities	(10,481)	(9,132)
Net deferred tax asset	<u>5,246</u>	<u>7,294</u>

As of October 1, 2016, and October 3, 2015, we had federal net operating loss carryforwards of approximately \$18.3 million and \$23.1 million, respectively. The deferred tax asset resulting from federal net operating losses for October 1, 2016, and October 3, 2015, were \$6.3 million and \$7.8 million, respectively. There is no carryback opportunity for these losses and the carryforwards expire at various intervals from 2033 to 2035. We determined that no valuation allowance is required, as we expect that all such carryforwards more likely than not will be realized within statutory periods of carryover and utilization.

As of October 1, 2016, and October 3, 2015, we had state net operating loss carryforwards of approximately \$45.4 million and \$58.5 million, respectively. These carryforwards expire at various intervals from 2019 through 2036. Our deferred tax asset related to state net operating loss carryforwards is reduced by a valuation allowance to result in deferred tax assets we consider more likely than not to be realized.

For both federal and state purposes, the ultimate realization of deferred tax assets depends upon the generation of future taxable income or tax planning strategies during the periods in which those temporary differences become deductible or when the carryforwards are available.

FASB Codification No. 740, *Income Taxes* ("ASC 740") requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Accrued interest and penalties related to unrecognized tax benefits would also be recorded. We did not have any material unrecognized tax benefits as of October 1, 2016, or October 3, 2015.

The tax years 2012 to 2014 according to statute and with few exceptions, remain open to examination by various federal, state, local and foreign jurisdictions.

NOTE 11—LEASES

We have several non-cancelable operating leases primarily related to buildings, office equipment and computer systems. Certain land and building leases have renewal options generally for periods ranging from 5 to 10 years.

Future minimum lease payments under non-cancelable operating leases as of October 1, 2016, were as follows (in thousands):

Fiscal Year	Amount
2017	\$ 7,177
2018	6,595
2019	6,237
2020	5,897
2021	3,633
Thereafter	10,396
	<u>\$ 39,935</u>

Rent expense for all operating leases was \$9.3 million, \$9.4 million and \$9.8 million for fiscal years 2016, 2015, and 2014, respectively.

NOTE 12—EMPLOYEE BENEFIT PLANS

We sponsor and maintain a 401(k) retirement savings plan (the "401(k) Plan") for our employees who meet certain requirements. The 401(k) Plan permits participants to make pre-tax contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code, as well as a Roth Plan that allows for after tax contributions. The 401(k) Plan provides for us to make a guaranteed match of a defined portion of the employee's contributions. During fiscal years 2016, 2015, and 2014 we contributed approximately \$1.1 million, \$1.1 million, and \$1.3 million, respectively, to the 401(k) Plan.

We provide post-retirement life insurance benefits for certain retired employees. The plan is noncontributory and is unfunded, and therefore, benefits and expenses are paid from our general assets as they are incurred. All of the employees in the plan are fully vested and the plan was closed to new employees in 1990. The discount rate used in determining the liability was 6.0% for fiscal years 2016 and 2015. The following table presents the benefit obligation for these benefits, which is included in accrued expenses in the accompanying balance sheets (in thousands).

	October 1, 2016	October 3, 2015
Balance at beginning of year	\$ 412	\$ 443
Interest expense	6	1
Benefits paid	(81)	(32)
Adjustment	7	—
Balance at end of year	<u>\$ 344</u>	<u>\$ 412</u>

NOTE 13—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.

We account for these plans pursuant to ASC 718, SAB 107 and SAB 110. Shares are generally issued from treasury stock upon exercise of the options or the vesting of the restricted stock units and performance units. ASC 718 requires that cash flows from tax benefits attributable to tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) be classified as financing cash flows. Compensation expense is recorded on the selling, general and administrative expense line item in our Consolidated Statements of Operations over the vesting periods. Total employee stock-based compensation expense for fiscal years 2016 and 2015 was \$2.0 million and \$1.9 million, respectively. During the 2014 fiscal year, we reduced this expense by \$90 thousand in connection with our outstanding awards due to adjustments to the expected vesting of certain performance units granted and known forfeitures of certain restricted stock units granted.

Associated with the compensation cost are income tax benefits recognized of \$0.8 million and \$0.7 million in fiscal years 2016 and 2015, respectively. Tax expense of \$35 thousand, associated with the reduction of expense, was recognized in fiscal year 2014.

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.

Stock Options

No stock options were granted during fiscal year 2016. All outstanding options granted by the Company have vested and are exercisable.

A summary of the stock option activity during the periods ended October 1, 2016, October 3, 2015, and September 27, 2014 is as follows:

	Fiscal Year Ended					
	October 1, 2016		October 3, 2015		September 27, 2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Stock options outstanding, beginning of period	10,000	\$ 13.07	50,000	\$ 13.47	50,000	\$ 13.47
Stock options granted	—	—	—	—	—	—
Stock options exercised	—	—	—	—	—	—
Stock options forfeited	—	—	(40,000)	13.56	—	—
Stock options outstanding, end of period	10,000	\$ 13.07	10,000	\$ 13.07	50,000	\$ 13.47
Stock options outstanding and exercisable, end of period	10,000	\$ 13.07	10,000	\$ 13.07	50,000	\$ 13.47

The following table summarizes information about our stock options outstanding, all of which are vested and exercisable as of October 1, 2016:

Date of Option Grant	Number of Options Outstanding and Exercisable	Exercise Price	Grant-Date Fair Value	Expiration Date
February 2, 2011	10,000	\$ 13.07	\$ 6.35	February 18, 2018
	10,000			

Restricted Stock Units and Performance Units

The following table summarizes the restricted stock unit and performance unit award activity during the periods ending October 1, 2016, October 3, 2015, and September 27, 2014:

	Fiscal Year Ended					
	October 1, 2016		October 3, 2015		September 27, 2014	
	Number of Units	Weighted average grant date fair value	Number of Units	Weighted average grant date fair value	Number of Units	Weighted average grant date fair value
Units outstanding, beginning of fiscal period	518,800	\$ 10.80	215,352	\$ 14.31	348,852	\$ 14.25
Units granted	159,138	\$ 14.03	524,000	\$ 10.81	—	\$ —
Units issued	(49,529)	\$ 12.32	(69,657)	\$ 14.31	—	\$ —
Units forfeited	(42,771)	\$ 10.87	(150,895)	\$ 14.26	(133,500)	\$ 14.16
Units outstanding, end of fiscal period	585,638	\$ 11.54	518,800	\$ 10.80	215,352	\$ 14.31

During fiscal year 2016, restricted stock units representing 83,788 shares of our common stock were granted. These restricted stock units are service-based and 8,438 units are eligible to vest upon the filing of our Annual Report on Form 10-K for the year ended October 1, 2016. The remaining 75,350 units are eligible to vest upon the filing of our Annual Report on Form 10-K for the year ending September 30, 2017. Upon vesting, one-half of these awards are payable in the common stock of Delta Apparel, Inc. and are accounted for under the equity method pursuant to ASC 718 and one-half are payable in cash and are accounted for under the liability method pursuant to ASC 718.

During fiscal year 2016, performance units representing 75,350 shares of our common stock were granted. These performance units are based on the achievement of certain performance criteria for the fiscal years ended October 1, 2016, and ending September 30, 2017, and are eligible to vest upon the filing of our Annual Report on Form 10-K for the year ending September 30, 2017. Upon vesting, one-half of these awards are payable in the common stock of Delta Apparel, Inc. and are accounted for under the equity method pursuant to ASC 718 and one-half are payable in cash and are accounted for under the liability method pursuant to ASC 718.

During fiscal year 2016, previously issued performance units representing 49,529 shares of our common stock vested upon the filing of our Annual Report on Form 10-K for the fiscal year ended October 3, 2015. Of these performance units, one-half were payable in common stock and one-half were payable in cash and were issued in accordance with their respective agreement.

During fiscal year 2015, restricted stock units representing 355,000 shares of our common stock were granted. These restricted stock units are serviced-based and vest upon the filing of our Annual Report on Form 10-K for the period ending September 29, 2018. Upon the filing of such Annual Report on Form 10-K, these units are payable in the common stock of Delta Apparel, Inc. and are therefore accounted for under the equity method pursuant to ASC 718.

During fiscal year 2015, performance units representing 169,000 shares of our common stock were granted. Of these performance units, 65,000 were based on the achievement of certain performance criteria for the fiscal year ended October 3, 2015, and were eligible to vest upon the filing of our Annual Report on Form 10-K. Of these units, one-half were payable in the common stock of Delta Apparel, Inc. and were therefore accounted for under the equity method pursuant to ASC 718 and one-half were payable in cash and were therefore accounted for under the liability method pursuant to ASC 718. Of the remaining units, 52,000 were based on the achievement of certain performance criteria for the fiscal year ended October 1, 2016, and 52,000 units are based on the achievement of certain performance criteria for the fiscal year ending September 30, 2017. These units vest upon the filing of our Annual Report on Form 10-K for the periods ended October 1, 2016, and ending September 30, 2017, respectively. Upon the filing of each Annual Report on Form 10-K, these units are payable in the common stock of Delta Apparel, Inc. and are therefore accounted for under the equity method pursuant to ASC 718. Based upon the performance achieved for fiscal year 2015, 49,529 units were issued upon the filing our Annual Report on Form 10-K for fiscal year 2015 and 5,200 units were forfeited on October 3, 2015.

During fiscal year 2015, previously issued restricted stock units representing 69,657 shares of our common stock vested upon the filing of our Quarterly Report on Form 10-Q for the period ended June 27, 2015, and were issued in accordance with their agreement, either in shares of common stock or cash. The total fair value of vested restricted stock units was \$1.0 million in fiscal year 2015. No restricted stock units vested during fiscal years 2014 or 2013. In addition, during fiscal year 2015, previously issued restricted stock units representing 12,019 shares of our common stock were forfeited. During fiscal year 2015, previously issued performance shares representing 133,676 shares of our common stock were forfeited due to the failure to achieve the performance criteria specified in the award agreement.

As of October 1, 2016, there was \$2.9 million of total unrecognized compensation cost related to non-vested restricted stock units and performance units under the 2010 Stock Plan. This cost is expected to be recognized over a period of 2.2 years.

The following table summarizes information about the unvested restricted stock units and performance units as of October 1, 2016.

Restricted Stock Units/Performance Units	Number of Units	Average Market Price on Date of Grant	Vesting Date
Fiscal year 2015 Restricted Stock Units	95,000	\$10.52	December 2018
Fiscal year 2015 Restricted Stock Units	230,000	\$10.73	December 2018
Fiscal year 2015 Performance Units	52,000	\$10.52	December 2016
Fiscal year 2015 Performance Units	52,000	\$10.52	December 2017
Fiscal year 2016 Restricted Stock Units	8,438	\$14.04	December 2016
Fiscal year 2016 Restricted Stock Units	74,100	\$14.03	December 2017
Fiscal year 2016 Performance Units	74,100	\$14.03	December 2017
	<u>585,638</u>		

Option Plan

Prior to expiration of the Option Plan, the Compensation Committee of our Board of Directors had the discretion to grant options for up to 2,000,000 shares of common stock to officers and key and middle-level executives for the purchase of our stock at prices not less than fifty percent of the fair market value of the shares on the dates of grant, with an exercise term (as determined by the Compensation Committee) not to exceed 10 years. The Compensation Committee determined the vesting period for the stock options, which generally became exercisable over three to four years. Certain option awards in the Option Plan provided for accelerated vesting upon meeting specific retirement, death or disability criteria.

Compensation expense was recorded on the selling, general and administrative expense line item in our Consolidated Statements of Operations on a straight-line basis over the vesting periods.

A summary of our stock option activity during the periods ended October 1, 2016, October 3, 2015, and September 27, 2014, is as follows:

	Fiscal Year Ended					
	October 1, 2016		October 3, 2015		September 27, 2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Stock options outstanding, beginning of period	86,000	\$ 8.30	502,000	\$ 12.27	584,500	\$ 12.13
Stock options exercised	—	\$ —	(350,000)	\$ 13.12	(82,500)	\$ 11.28
Stock options forfeited	—	\$ —	(66,000)	\$ 12.94	—	\$ —
Stock options outstanding, end of period	<u>86,000</u>	<u>\$ 8.30</u>	<u>86,000</u>	<u>\$ 8.30</u>	<u>502,000</u>	<u>\$ 12.27</u>
Stock options outstanding and exercisable, end of period	<u>86,000</u>	<u>\$ 8.30</u>	<u>86,000</u>	<u>\$ 8.30</u>	<u>502,000</u>	<u>\$ 12.27</u>

No stock options were exercised during fiscal year 2016. The total intrinsic value of options exercised during fiscal year 2015 and 2014 was \$0.3 million and \$0, respectively. During fiscal year 2015, stock option exercises resulted in a reduction of deferred excess tax benefits by \$0.7 million. During fiscal year 2014, stock option exercises resulted in an excess tax benefit of \$27 thousand.

The following table summarizes information about our stock options outstanding, all of which are vested and exercisable as of October 3, 2015:

Date of Option Grant	Number of Options Outstanding and Exercisable	Exercise Price	Grant-Date Fair Value	Expiration Date
February 8, 2008	86,000	\$ 8.30	\$ 2.95	February 8, 2018
	<u>86,000</u>			

NOTE 14—BUSINESS SEGMENTS

We operate our business in two distinct segments: basics and branded. 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 the second quarter of 2016, in connection with the ongoing evaluation of our current and future strategic initiatives, Robert W. Humphreys, our Chief Operating Decision Maker, began reviewing the performance of the basics and branded segments excluding general

corporate expenses. Therefore, we report our financial performance on the two reportable segments, basics and branded, with corporate activities stated separately. Our financial statements reflect this reporting with prior periods adjusted accordingly.

The basics segment is comprised of our business units primarily focused on garment styles characterized by low fashion risk, and includes our Delta Activewear (which includes Delta Catalog and FunTees) and Art Gun business units. We market, distribute and manufacture unembellished knit apparel under the main brands of Delta Pro Weight® and Delta Magnum Weight® for sale to a diversified audience ranging from large licensed screen printers to small independent businesses. We also manufacture private label products for major branded sportswear companies, trendy regional brands, retailers, and sports licensed apparel marketers. Typically our private label products are sold with value-added services such as hangtags, ticketing, hangers, and embellishment so that they are fully ready for retail. Using digital print equipment and its proprietary technology, Art Gun embellishes garments to create private label, custom decorated apparel servicing the fast-growing e-retailer channels.

The branded segment is comprised of our business units which are focused on specialized apparel garments and headwear to meet consumer preferences and fashion trends, and includes our Salt Life, Junkfood, Soffe, and Coast business units as well as *The Game* business unit prior to its disposition on March 2, 2015. These branded embellished and unembellished products are sold through specialty and boutique shops, upscale and traditional department stores, mid-tier retailers, sporting goods stores, e-retailers and the U.S. military. Products in this segment are marketed under our lifestyle brands of Salt Life®, Junk Food®, Soffe®, and COAST®, as well as other labels. The results of the Coast business have been included in the branded segment since acquisition on August 30, 2016.

Our Chief Operating Decision Maker and 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. The accounting policies of our reportable segments are the same as those described in Note 2. Intercompany transfers between operating segments are transacted at cost and have been eliminated within the segment amounts shown in the following table (in thousands).

	Fiscal Year Ended		
	October 1, 2016	October 3, 2015	September 27, 2014
Segment net sales:			
Basics	\$ 277,146	\$ 282,467	\$ 265,882
Branded	148,103	166,675	187,019
Total net sales	425,249	449,142	452,901
Segment operating income:			
Basics	22,307	13,060	6,785
Branded	6,950	12,379	3,070
Total segment operating income	29,257	25,439	9,855
Purchases of property, plant and equipment:			
Basics	10,734	6,037	6,436
Branded	1,501	689	1,458
Corporate	80	1,047	1,000
Total purchases of property, plant and equipment	12,315	7,773	8,894
Depreciation and amortization:			
Basics	6,437	6,208	6,096
Branded	2,772	2,902	2,948
Corporate	416	432	449
Total depreciation and amortization	9,625	9,542	9,493

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

	Fiscal Year Ended		
	October 1, 2016	October 3, 2015	September 27, 2014
Segment operating income	\$ 29,257	\$ 25,439	\$ 9,855
Unallocated corporate expenses	12,925	9,320	11,516
Unallocated interest expense	5,287	6,021	5,792
Consolidated income (loss) before provision for (benefit from) income taxes	\$ 11,045	\$ 10,098	\$ (7,453)

Our revenues include sales to domestic and foreign customers. Foreign customers are composed of companies whose headquarters are located outside of the United States. Supplemental information regarding our revenues by geographic area based on the location of the customer is as follows (in thousands):

	Fiscal Year Ended		
	October 1, 2016	October 3, 2015	September 27, 2014
United States	\$ 418,627	\$ 442,207	\$ 442,062
Foreign	6,622	6,935	10,839
Total net sales	\$ 425,249	\$ 449,142	\$ 452,901

Our total assets and equity investment by segment are as follows (in thousands):

	As of	
	October 1, 2016	October 3, 2015
Total assets by segment:		
Basics	178,347	160,902
Branded	156,119	152,210
Corporate	10,186	11,791
Total assets	344,652	324,903
Equity investment in joint venture:		
Basics	3,593	3,195
Branded	—	—
Total equity investment in joint venture	3,593	3,195

Our long-lived assets, excluding goodwill and intangible assets, consist of property, plant and equipment for all locations. We attribute our property, plant and equipment to a particular country based on the location of the long-lived assets. Summarized financial information by geographic area is as follows (in thousands):

	As of	
	October 1, 2016	October 3, 2015
United States	\$ 18,523	\$ 22,302
Honduras	19,650	13,072
El Salvador	4,215	3,276
Mexico	1,115	1,003
All foreign countries	24,980	17,351
Total long-lived assets, excluding goodwill and intangibles	\$ 43,503	\$ 39,653

NOTE 15—REPURCHASE OF COMMON STOCK

As of October 1, 2016, our Board of Directors had authorized management to use up to \$40.0 million to repurchase stock in open market transactions under our Stock Repurchase Program.

During fiscal years 2016, 2015 and 2014, we purchased 217,568 shares, 140,336 shares, 78,674 shares, respectively, of our common stock for a total cost of \$3.5 million, \$2.1 million, \$1.2 million, respectively. As of October 1, 2016, we have purchased 2,480,150 shares of common stock for an aggregate of \$30.9 million since the inception of the 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 October 1, 2016, \$9.1 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 October 1, 2016:

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
July 3 to August 6, 2016	—	\$ —	—	\$10.8 million
August 7 to September 3, 2016	16,093	\$ 18.43	16,093	\$10.5 million
September 4 to October 1, 2016	87,685	\$ 16.30	87,685	\$9.1 million
Total	103,778	\$ 16.63	103,778	\$9.1 million

NOTE 16—COMMITMENTS AND CONTINGENCIES

(a) Litigation

U.S. 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. Junkfood subsequently 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 disputed the Commission's allegations and subsequently responded to the Commission staff regarding its recommended penalty, setting forth a number of defenses and mitigating factors that could have resulted in a much lower penalty, if any, ultimately imposed by a court had the matter proceeded to litigation.

We believe that any claims brought by the Commission seeking enforcement of the recommended penalty would be time-barred under any reasonable interpretation of the applicable civil statute of limitations. Accordingly, we consider this matter to be resolved and during the quarter ended October 1, 2016, we reversed the liability previously recorded in connection with this matter.

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 was brought as a class action and sought 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 also named as defendants Junkfood, Soffe, an independent contractor of Soffe, and a former employee, and sought to include all current and certain former employees of Junkfood, Soffe and the Soffe independent contractor within California who are or were non-exempt under applicable wage and hour laws. The Complaint sought injunctive and declaratory relief, monetary damages and compensation, penalties, attorneys' fees and costs, and pre-judgment interest.

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 was brought as a class action and sought to include all current and certain former employees of Junkfood, Soffe, our Delta Activewear business unit, the Soffe independent contractor named in the Complaint and an individual employee of such contractor within California who are or were non-exempt under applicable wage and hour laws.

On September 17, 2015, an agreement in principle was reached between all parties to settle the above-referenced wage and hour matters, with the defendants in the matters agreeing to pay an aggregate amount of \$300,000 in exchange for a comprehensive release of all claims at issue in the matters. Delta Apparel, Inc., Soffe and Junkfood collectively agreed to contribute \$200,000 towards the aggregate settlement.

amount, and we have this amount included in our accrued expenses as of October 1, 2016, and October 3, 2015. The settlement agreement has been approved by the applicable court and these matters have been finally resolved, with the agreed amounts funded subsequent to the 2016 fiscal year-end.

The Sports Authority Bankruptcy Litigation

Soffe is involved in several related litigation matters stemming from The Sports Authority's ("TSA") March 2, 2016, filing of a voluntary petition(s) for relief under Chapter 11 of the United States Bankruptcy Code (the "TSA Bankruptcy"). Prior to such filing, Soffe provided TSA with products to be sold on a consignment basis pursuant to a "pay by scan" agreement and the litigation matters relate to Soffe's interest in the products it provided TSA on a consignment basis (the "Products") and the proceeds derived from the sale of such products (the "Proceeds").

TSA Stores, Inc. and related entities TSA Ponce, Inc. and TSA Caribe, Inc. filed an action against Soffe on March 16, 2016, in the United States Bankruptcy Court for the District of Delaware (the "TSA Action") essentially seeking a declaratory judgment that: (i) Soffe does not own the Products but rather has a security interest that is not perfected or senior and is avoidable; (ii) Soffe only has an unsecured claim against TSA; (iii) TSA and TSA's secured creditors have valid, unavoidable and senior rights in the Products and the Products are the property of TSA's estate; (iv) Soffe does not have a perfected purchase money security interest in the Products; (v) Soffe is not entitled to a return of the Products; and (vi) TSA can continue to sell the Products and Soffe is not entitled to any proceeds from such sales other than as an unsecured creditor. The TSA Action also contains claims seeking to avoid Soffe's filing of a financing statement related to the Products as a preference and recover the value of that transfer as well as to disallow Soffe's claims until it has returned preferential transfers or their associated value. TSA also brings a claim for a permanent injunction barring Soffe from taking certain actions. We believe that many of the claims in the TSA Action, including TSA's claim for injunction, are now moot as a result of Soffe's agreement to permit TSA to continue selling the Products in TSA's going-out-of-business sale.

On May 16, 2016, TSA lender Wilmington Savings Fund Society, FSB, as Successor Administrative and Collateral Agent ("WSFS"), intervened in the TSA Action seeking a declaratory judgment that: (i) WSFS has a perfected interest in the Products and Proceeds that is senior to Soffe's interest; and (ii) the Proceeds paid to Soffe must be disgorged pursuant to an order previously issued by the court. WSFS's intervening complaint also contains a separate claim seeking the disgorgement of all Proceeds paid to Soffe along with accrued and unpaid interest.

Soffe has asserted counterclaims against WSFS in the TSA Action essentially seeking a declaratory judgment that: (i) WSFS is not perfected in the Products; and (ii) WSFS's interest in the Products is subordinate to Soffe's interest.

On May 24, 2016, Soffe joined an appeal filed by a number of TSA consignment vendors in the United States District Court for the District of Delaware challenging an order issued in the TSA Bankruptcy that, should WSFS or TSA succeed in the TSA Action, granted TSA and/or WSFS a lien on all Proceeds received by Soffe and requiring the automatic disgorgement of such Proceeds. As of November 14, 2016, Soffe and another entity are the remaining consignment vendors pursuing this appeal.

Although we will continue to vigorously defend against the TSA Action and pursue the above-referenced counterclaims and appeal, should TSA and/or WSFS ultimately prevail on their claims, we could be forced to disgorge all Proceeds received and forfeit our ownership rights in any Products that remain in TSA's possession. We believe the range of possible loss in this matter is currently \$0 to \$3.3 million; however, it is too early to determine the probable outcome and, therefore, no amount has been accrued related to this matter.

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.

(b) Purchase Contracts

We have entered into agreements, and have fixed prices, to purchase yarn, natural gas, finished fabric, and finished apparel and headwear products. At October 1, 2016, minimum payments under these contracts were as follows (in thousands):

Yarn	\$	13,823
Finished fabric		6,952
Finished products		22,130
	\$	<u>42,905</u>

(c) Letters of Credit

As of October 1, 2016, we had outstanding standby letters of credit totaling \$0.4 million.

(d) Derivatives and Contingent Consideration

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. The following financial instruments were outstanding as of October 1, 2016:

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

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 market 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 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)
Interest Rate Swap				
October 1, 2016	\$ (182)	—	\$ (182)	—
October 3, 2015	\$ (697)	—	\$ (697)	—
September 27, 2014	\$ (438)	—	\$ (438)	—
Contingent Consideration				
October 1, 2016	\$ (2,500)	—	—	\$ (2,500)
October 3, 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. Fair values for debt are based on quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities (a Level 2 fair value measurement).

In August 2013, we acquired Salt Life and issued 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 a Monte Carlo model which 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 acquisition of Salt Life at each reporting period. Accordingly, the fair value measurement for contingent consideration falls in Level 3 of the fair value hierarchy.

At October 1, 2016, we had \$2.5 million accrued in contingent consideration related to the Salt Life Acquisition, a \$0.6 million reduction from the accrual at October 3, 2015. The reduction in the fair value of contingent consideration is based on the inputs into the Monte Carlo model, including the time remaining in 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. No contingent consideration is expected to be paid under the terms of our acquisition of the Art Gun business.

The following table summarizes the fair value and presentation in the Consolidated Balance Sheets for derivatives as of October 1, 2016, and October 3, 2015.

	October 1, 2016	October 3, 2015
Accrued expenses	\$ (182)	\$ (519)
Deferred tax liabilities	70	269
Other liabilities	—	(179)
Accumulated other comprehensive loss	\$ (112)	\$ (429)

(e) License Agreements

We have entered into license agreements that provide for royalty payments of 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 selling, general and administrative expenses) of approximately \$8.2 million, \$10.1 million and \$11.1 million during fiscal years 2016, 2015, and 2014, respectively.

At October 1, 2016, based on minimum sales requirements, future minimum royalty payments required under these license agreements were as follows (in thousands):

Fiscal Year	Amount
2017	\$ 1,132
2018	178
2019	—
2020	—
2021 and thereafter	—
	<u>\$ 1,310</u>

NOTE 17—QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Presented below is a summary of our unaudited consolidated quarterly financial information for the fiscal years ended October 1, 2016, and October 3, 2015 (in thousands, except per share amounts):

	2016 Quarter Ended					2015 Quarter Ended			
	January 2, 2016	April 2, 2016	July 2, 2016	October 1, 2016	December 27, 2014	March 28, 2015	June 27, 2015	October 3, 2015	
Net sales	\$ 90,171	\$ 109,160	\$ 111,552	\$ 114,366	\$ 93,381	\$ 115,042	\$ 120,525	\$ 120,194	
Gross profit	18,879	25,726	24,986	23,908	15,326	21,235	25,484	26,274	
Operating income (loss)	2,227	5,931	4,227	3,947	(3,217)	7,328	6,897	5,111	
Net earnings (loss)	681	3,436	2,542	2,305	(4,211)	3,646	4,418	4,240	
Basic EPS	\$ 0.09	\$ 0.44	\$ 0.33	\$ 0.30	\$ (0.53)	\$ 0.46	\$ 0.56	\$ 0.54	
Diluted EPS	\$ 0.09	\$ 0.43	\$ 0.32	\$ 0.29	\$ (0.53)	\$ 0.46	\$ 0.55	\$ 0.53	

As discussed in Note 4, gross profit and operating income in the quarters ended July 2, 2016, and October 1, 2016, included restructuring expenses related to the manufacturing realignment, and as discussed in Note 3, operating income for the quarter ended March 28, 2015, included a gain from the sale of *The Game*.

Section 15 (a)(2) SCHEDULE II — CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
DELTA APPAREL, INC. AND SUBSIDIARIES

(In thousands)

ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Beginning Balance	Expense	Write-Offs/ Credits Issued	Ending Balance
2016	\$ 1,470	\$ 195	\$ (1,096)	\$ 569
2015	1,047	771	(348)	1,470
2014	851	467	(271)	1,047

RETURNS AND ALLOWANCES

	Beginning Balance	Expense	Write-Offs/ Credits Issued	Ending Balance
2016	\$ 1,515	\$ 7,822	\$ (7,928)	\$ 1,409
2015	2,113	12,173	(12,771)	1,515
2014	2,108	12,425	(12,420)	2,113

TOTAL RESERVES FOR ALLOWANCES

	Beginning Balance	Expense	Write-Offs/ Credits Issued	Ending Balance
2016	\$ 2,985	\$ 8,017	\$ (9,024)	\$ 1,978
2015	3,160	12,944	(13,119)	2,985
2014	2,959	12,892	(12,691)	3,160

EMPLOYMENT AND NON-SOLICITATION AGREEMENT

THIS EMPLOYMENT AND NON-SOLICITATION AGREEMENT ("Agreement"), dated as of December 31, 2015, is by and between DELTA APPAREL, INC., a Georgia corporation ("Company"), and, Justin M. Grow, a South Carolina resident ("Executive").

WHEREAS, Executive and the Company want to enter into a written agreement providing for the terms of Executive's employment by the Company, such agreement to replace and supersede that certain Employment and Non-Solicitation Agreement between Executive and the Company dated December 31, 2012 ("Prior Agreement").

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

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

Executive's initial job title will be General Counsel and Corporate Secretary, and Executive's duties will be those as are determined by the Company's Chief Executive Officer.

2. **Compensation** .

(a) **Base Salary** . During the term of Executive's employment with the Company pursuant to this Agreement, the Company shall pay to Executive as compensation for Executive's services an annual base salary of not less than \$190,000.00 ("Base Salary"). Executive's Base Salary will be payable in arrears in accordance with the Company's normal payroll procedures and will be reviewed annually and subject to upward adjustment at the discretion of the Company's Chief Executive Officer, which may require the approval of the Compensation Committee of the Company's Board of Directors. Nothing in this Agreement entitles Executive to an annual base salary of more than the above-referenced Base Salary amount.

(b) **Incentive Bonus** . During the term of Executive's employment with the Company pursuant to this Agreement, Executive shall be entitled to participate in the Company's Short-Term Incentive Compensation Plan as in effect from time to time. Any cash compensation payable under this paragraph shall be referred to as "Incentive Compensation" in this Agreement. The Company reserves the right to amend and/or terminate its Short-Term Incentive Compensation Plan and nothing in this Agreement entitles Executive to any particular level of participation in the Company's Short-Term Incentive Compensation Plan.

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

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

(e) **Expense Reimbursements** . The Company shall pay or reimburse Executive for all reasonable business expenses incurred or paid by Executive in the course of performing Executive's duties hereunder, including, but not limited to, reasonable travel expenses for Executive. Such reimbursements will be made no later than the last day of the year immediately following the year in which Executive incurs the reimbursable expense. The amount of reimbursable expenses incurred in one taxable year shall not affect the expenses eligible for reimbursement in any other taxable year. No right to reimbursement is subject to liquidation or exchange for other benefits. As a condition to such payment or reimbursement, however, Executive shall maintain and provide to the Company reasonable documentation and receipts for such expenses.

3. **Term** . Unless sooner terminated pursuant to Section 4 of this Agreement, and subject to the provisions of Section 5 and 6 hereof, the term of this Agreement (the "Term") shall commence as of the date hereof and shall continue until December 31, 2018.

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

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

(b) Termination for Cause. The Company may terminate Executive's employment at any time for "Cause" (as hereinafter defined) by delivering a written termination notice to Executive. For purposes of this Agreement, "Cause" shall mean any of the following:

(i) fraud; (ii) embezzlement; (iii) Executive's commission of a felony; (iv) the willful or continued failure or refusal by Executive to perform and discharge Executive's duties, responsibilities and obligations under this Agreement; (v) any act of moral turpitude or willful misconduct by Executive intended to result in personal enrichment of Executive at the expense of the Company, or any of its affiliates or which has a material adverse impact on the business or reputation of the Company or any of its affiliates (such determination to be made by the President or Chief Executive Officer in his or her reasonable judgment); (vi) gross negligence or intentional misconduct resulting in damage to the property, reputation or business of the Company; (vii) the ineligibility of Executive to perform Executive's duties because of a ruling, directive or other action by any agency of the United States or any state of the United States having regulatory authority over the Company; or (viii) Executive's failure to correct or cure any material breach of or default under this Agreement within ten (10) days after receiving written notice of such breach or default from the Company.

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

(d) Termination by Executive. Executive may terminate Executive's employment at any time by delivering sixty (60) days prior written notice to the Company; provided, however, that the terms, conditions and benefits specified in Section 5 hereof shall apply or be payable to Executive only if such termination occurs as a result of a material breach by the Company of any provision of this Agreement for which the Executive provides written notice to the Company within ninety (90) days of the initial existence of the alleged material breach and which is not cured by the Company within thirty (30) days of Executive's notice to the Company.

(e) Termination Following Disability. In the event Executive becomes "disabled" (as defined below), the Company may terminate Executive's employment by delivering a written termination notice to Executive. Notwithstanding the foregoing, Executive shall continue to receive Executive's full Base Salary and benefits to which Executive is entitled under this Agreement for a period of six (6) months after the effective date of such termination. For purposes of this section, the Executive shall be considered disabled if the Executive (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three (3) months under the Company's disability insurance policy and/or salary continuation policy as in effect on the date of such disability.

(f) Reserved.

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

5. Certain Termination Benefits. In the event that:

(i) the provisions of Section 6 do not apply;

(ii) either the Company terminates Executive's employment without Cause pursuant to Section 4(c) or Executive terminates Executive's employment pursuant to Section 4(d) as a result of an uncured material breach by the Company of any provision of this Agreement; and

(iii) the Executive executes and delivers the release contemplated in Section (e) below, and any revocation period therein expires, on or before the 30th day after the date of Executive's termination from employment,

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

(a) **Base Salary and Incentive Compensation.** The Company shall pay to Executive (i) Executive's Base Salary (as in effect as of the date of Executive's termination) and (ii) Incentive Compensation (in an aggregate amount equal to the applicable portion of the cash Incentive Compensation received by the Executive for the most recent fiscal year prior to Executive's termination) as follows:

Years of Service with The Company	Base Salary	Incentive Compensation	Payout Period
Less than one	3 months	25% of the Short Term Incentive Plan award for the most recent full fiscal year prior to termination	3 months
One but less than two	6 months	50% of the Short Term Incentive Plan award for the most recent full fiscal year prior to termination	6 months
Two but less than three	9 months	75% of the Short Term Incentive Plan award for the most recent full fiscal year prior to termination	9 months
Three or More	12 months	100% of the Short Term Incentive Plan award for the most recent full fiscal year prior to termination	12 months

To the extent permitted under Section 409A of the Internal Revenue Code of 1986, as amended ("Code"), and related Treasury Regulations, the sum of applicable Base Salary and Incentive Compensation shall be divided into equal monthly payments and paid to the Executive over the applicable Payout Period shown in the table above, depending on the Executive's years of service at the time of termination.

(b) **Life and Group Disability Insurance.** If and to the extent that the Company's plans in effect from time to time permit such coverage and to the extent permitted under Code Section 409A, the Company shall continue to provide Executive with group life and disability insurance coverage for applicable Payout Period described above in (a) following termination at coverage levels and rates equal to those applicable to Executive immediately prior to such termination or, if different, as provided to other executive level employees during such applicable period.

(c) **Medical Insurance.** Upon termination of employment, the Executive shall be entitled to all COBRA continuation benefits available under the Company's group health plans to similarly situated employees. To the extent permitted under Code Section 409A, during the applicable Payout Period, the Company shall provide such COBRA continuation benefits to the Executive at the active employee rates similarly situated employees must pay for such benefits. Upon the expiration of such Payout Period, the Executive will be responsible for paying the full COBRA premiums for the remaining COBRA continuation period.

(d) **Offset.** To the extent permitted by COBRA and the Health Insurance Portability and Accountability Act of 1996, as amended ("HIPAA"), any fringe benefits received by Executive in connection with any other employment accepted by Executive that are reasonably comparable, even if not necessarily as beneficial to Executive, to the fringe benefits then being provided by the Company pursuant to paragraphs (b) and (c) of this Section 5, shall be deemed to be the equivalent of such benefits, and shall terminate the Company's responsibility to continue providing the fringe benefits package, taken as a whole, then being provided by the Company pursuant to paragraphs (b) and (c) of this Section 5. The Company agrees that if Executive's employment with the Company is terminated, Executive shall have no duty to mitigate damages.

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

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

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

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

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

A condition to Executive's receipt of any amounts pursuant to this Section 5 shall be Executive's execution and delivery of a general release drafted by the Company as described above, and the expiration of any revocation period therein, on or before the 30th day after the date of Executive's termination from employment. In exchange for such release, the Company shall, if Executive's employment is terminated without Cause, provide a release to Executive, but only with respect to claims against Executive that Executive identifies in writing to the Company at the time of such termination and as otherwise reasonably acceptable to the Company.

6. Effect of Change of Control .

(a) If within one (1) year following a "Change of Control" (as hereinafter defined), Executive terminates Executive's employment with the Company for "Good Reason" (as hereinafter defined) or the Company terminates Executive's employment for any reason other than Cause, death or disability (as defined in Section 4(e)), the Company shall pay to Executive in a lump sum within thirty (30) days following Executive's termination of employment: (i) an amount equal to one times the Executive's Base Salary as of the date of termination; and (ii) an amount equal to the cash Incentive Compensation received by the Executive for the most recent fiscal year prior to Executive's termination. In addition, the Company shall provide the Executive with out-placement assistance. In addition, to the extent permitted under the terms of the various plans, the Company shall continue to provide the Executive with coverage under the Company's various welfare and benefit plans, including retirement and group healthcare, dental and life in which Executive participates at the time of termination, for the period equal to twelve (12) months from the date of termination at coverage levels and rates substantially equal to those applicable to Executive immediately prior to such termination. A condition to Executive's receipt of any amounts pursuant to this Section 6(a) shall be Executive's execution and delivery of a general release as described in Section 5(e) above, and the expiration of any revocation period therein, on or before the 30th day after the date of Executive's termination from employment.

(b) "Change of Control" means, with respect to the Executive, a "change in ownership," a "change in effective control," or a "change in the ownership of substantial assets" of a corporation as described in Treasury Regulations Section 1.409A-3(g)(5) (which events are collectively referred to herein as "Change of Control events") after the date of this Agreement. To constitute a Change of Control with respect to the Executive, the Change of Control event must relate to a change in control of Delta Apparel, Inc.

(i) A "change in ownership" of a corporation occurs on the date that any one person, or more than one person acting as a group, acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of such corporation. However, if any one person, or more than one person acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in ownership of the corporation (or to cause a change in the effective control of the corporation (within the meaning of paragraph (ii) below)).

(ii) Notwithstanding that a corporation has not undergone a change in ownership under paragraph (i) above, a "change in effective control" of a corporation occurs on the date that either:

(A) Any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing 35 percent or more of the total voting power of the stock of such corporation; or

(B) A majority of members of the corporation's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors prior to the date of the appointment or election.

For purposes of this paragraph (ii), the term corporation refers solely to the relevant corporation identified in the opening paragraph of this Section 6(b) for which no other corporation is a majority shareholder.

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

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

(ii) a reduction by the Company in the Executive's Base Salary as in effect on the date of a Change of Control or Potential Change of Control, or as the same may be increased from time to time during the term of this Agreement;

(iii) the Company shall require the Executive to be based anywhere other than at or within a 25-mile radius of the Company's principal executive offices or the location where the Executive is based on the date of a Change of Control or Potential Change of Control, or if Executive agrees to such relocation, the Company fails to reimburse the Executive for moving and all other expenses reasonably incurred in connection with such move;

(iv) a significant increase in Executive's required travel on behalf of the Company;

(v) the Company shall fail to continue in effect any Company-sponsored plan or benefit that is in effect on the date of a Change of Control or Potential Change of Control (other than the Company's Incentive Stock Award Plan or the Company's stock option plan) and pursuant to which Executive has received awards or benefits and that provides (A) incentive or bonus compensation, (B) fringe benefits such as vacation, medical benefits, life insurance and accident insurance, (C) reimbursement for reasonable expenses incurred by the Executive in connection with the performance of duties with the Company, or (D) retirement benefits such as an Internal Revenue Code Section 401(k) plan, except to the extent that such plans taken as a whole are replaced with substantially comparable plans;

(vi) any material breach by the Company of any provision of this Agreement for which the Executive provides written notice to the Company within ninety (90) days of the initial existence of the alleged material breach and which is not cured by the Company within thirty (30) days of Executive's notice to the Company; and

(vii) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company effected in accordance with the provisions of Section 13.

(d) "Potential Change of Control" shall mean the date, which must be within twelve (12) months preceding a Change of Control, as of which (i) the Company enters into an agreement the consummation of which, or the approval by shareholders of which, would constitute a Change of Control; (ii) proxies for the election of directors of the Board of Directors of the Company are solicited by anyone other than the Company which solicitation, if successful, would result in a Change of Control; (iii) any person (including, but not limited to, any individual, partnership, joint venture, corporation, association or trust) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change of Control; or (iv) any other event occurs which is deemed to be a Potential Change of Control by the Board of Directors of the Company and the Board adopts a resolution to the effect that a Potential Change of Control has occurred.

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

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

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

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

8. Non-Solicitation. During the Term and for a period of one year from the earlier of the expiration of the Term or the termination of Executive's employment with the Company for any reason whatsoever, Executive shall not, on Executive's own behalf or on behalf of any other person, partnership, association, corporation, or other entity, (a) solicit or in any manner attempt to influence or induce any employee of the Company or its subsidiaries or affiliates (known by the Executive to be such) to leave the employment of the Company or its subsidiaries or affiliates (other

than through general advertisements not directed at any particular employee or group of employees), nor shall Executive use or disclose to any person, partnership, association, corporation or other entity any information obtained while an employee of the Company concerning the names and addresses of the Company's employees, or (b) solicit, entice or induce any customer or supplier of the Company at the time of such expiration or termination with whom Executive had direct or indirect contact during Executive's employment with the Company (or any actively sought customer or supplier of the Company at the time of such expiration or termination with whom Executive had direct or indirect contact during Executive's employment with the Company) for or on behalf of any Competing Business in the Restricted Territory.

9. Non-Disclosure of Trade Secrets. During and prior to the Term of this Agreement, Executive has had access to and became familiar with and will have access to and become familiar with various trade secrets and proprietary and confidential information of the Company and its affiliates, including, but not limited to, processes, computer programs, compilations of information, records, sales procedures, customer requirements, pricing techniques, customer lists, methods of doing business and other confidential information (collectively, referred to as "Trade Secrets") which are owned by the Company and/or its affiliates and regularly used in the operation of its or their business, and as to which the Company and/or its affiliates take precautions to prevent dissemination to persons other than certain directors, officers and employees. Executive acknowledges and agrees that the Trade Secrets (1) are secret and not known in the industry; (2) give the Company and/or its affiliates an advantage over competitors who do not know or use the Trade Secrets; (3) are of such value and nature as to make it reasonable and necessary to protect and preserve the confidentiality and secrecy of the Trade Secrets; and (4) are valuable, special and unique assets of the Company and/or its affiliates, the disclosure of which could cause substantial injury and loss of profits and goodwill to the Company and/or its affiliates. Executive may not use in any way or disclose any of the Trade Secrets, directly or indirectly, either during the Term or at any time after the expiration of the Term or the termination of Executive's employment with the Company for any reason whatsoever, except as required in the course of Executive's employment under this Agreement, as required in connection with a judicial or administrative proceeding, or if the information becomes public knowledge other than as a result of an unauthorized disclosure by the Executive. All files, records, documents, information, data and similar items relating to the business of the Company and/or its affiliates, whether prepared by Executive or otherwise coming into Executive's possession, will remain the exclusive property of the Company and/or its affiliates (as the case may be) and may not be removed from the premises of the Company under any circumstances without the prior written consent of the Board of Directors of the Company and/or its affiliates (as the case may be) (except in the ordinary course of business during Executive's period of active employment under this Agreement), and in any event must be promptly delivered to the President or Chief Executive Officer of the Company upon termination of Executive's employment with the Company. Executive agrees that upon Executive's receipt of any subpoena, process or other request to produce or divulge, directly or indirectly, any Trade Secrets to any entity, agency, tribunal or person, Executive shall timely notify and promptly hand deliver a copy of the subpoena, process or other request to the Board of Directors of the Company. For this purpose, Executive irrevocably nominates and appoints the Company (including any attorney retained by the Company), as Executive's true and lawful attorney-in-fact, to act in Executive's name, place and stead to perform any act that Executive might perform to defend and protect against any disclosure of any Trade Secrets. The rights granted to the Company and/or its affiliates in this Section 9 are intended to be in addition to and not in replacement of any protection of trade secrets provided by equity, any statute, judicially created law or other agreement. Executive agrees that the foregoing shall in no way restrict the Executive from communicating with or providing information to any regulator or other governmental authority with supervisory responsibility for the Company (including, without limitation, the Securities and Exchange Commission) pursuant to a valid subpoena, process or other request.

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

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

12. Compliance With Section 409A. To the extent a payment hereunder is, or shall become, subject to the application of Section 409A of the Code and related Treasury Regulations, the following shall apply:

(a) This Agreement is intended to comply with the requirements of Section 409A and the Treasury Regulations and other guidance issued thereunder, as in effect from time to time, and to avoid any additional tax thereunder. To the extent a provision of this Agreement is contrary to or fails to address the requirements of Code Section 409A and related Treasury Regulations, this Agreement shall be construed and administered as necessary to comply with such requirements to the extent allowed under applicable law and this Agreement is appropriately amended to comply with such requirements.

(b) The time or schedule of payment hereunder may be accelerated or delayed only upon such events and conditions as the IRS may permit in generally applicable published regulatory or other guidance under Code Section 409A.

(c) For purposes of this Agreement, all references to "termination of employment" or similar phrases shall be construed to require a "separation from service" (as defined in Treasury Regulation Section 1.409A-1(h)).

(d) To the extent compliance with the requirements of Treasury Regulation Section 1.409A-3(i)(2) (or any successor provision) is necessary to avoid the application of an additional tax under Code Section 409A to payments due to Executive upon Executive's separation from service at a time when Executive is determined to be a "specified employee" under Treasury Regulation Section 1.409A-1(i) and any stock of the Company or any of its affiliates or related entities is publicly traded on an established securities market or otherwise, then notwithstanding any other provision of this Agreement, any such payments that are otherwise due within six (6) months following Executive's separation from service will be deferred without interest and paid to Executive in a lump sum immediately following that six (6) month period.

(e) Neither the Company nor its affiliates, subsidiaries or related entities, nor any of the Company's or such entities' directors, officers or agents will be liable to Executive or anyone else if the Internal Revenue Service or any court or other authority determines that any payments or benefits to be provided under this Agreement are subject to taxes, penalties or interest as a result of failing to comply with or be exempt from Section 409A.

13. Miscellaneous.

(a) Notices. Any notices, consents, demands, requests, approvals and other communications to be given under this Agreement by either party to the other must be in writing and must be either (i) personally delivered, (ii) mailed by registered or certified mail, postage prepaid with return receipt requested, (iii) delivered by reputable overnight express delivery service or reputable same-day local courier service, or (iv) delivered by telex or facsimile transmission, with confirmed receipt, to the address set forth below, or to such other address as may be designated by the parties from time to time in accordance with this Section 13(a):

If to the Company:
Delta Apparel, Inc.
322 South Main Street
Greenville, SC 29601
Attention: General Counsel
Fax No.: 864 232 5199

If to Executive:
10 Club Forest Lane
Greenville, SC 29605

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

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

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

(d) Governing Law and Venue. The parties acknowledge and agree that this Agreement and the obligations and undertakings of the parties under this Agreement will be performable in Georgia. This Agreement is governed by, and construed in accordance with, the laws of the State of

Georgia without giving consideration to the conflict of laws provisions thereof. Subject to the terms of Section 14, below, if any action is brought to enforce or interpret this Agreement, the parties consent to the jurisdiction and venue of the Federal District Court for the Northern District of Georgia and any state or superior court located in Fulton or Gwinnett Counties, Georgia.

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

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

(g) Costs. Except as provided in Section 13(e) above or except as provided below, if any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, each party shall bear its own costs and expenses (including, without limitation, attorneys' fees); provided, however, that in the event Executive incurs costs or expenses in connection with successfully enforcing this Agreement following a Change of Control, the Company shall reimburse the Executive for all such reasonable costs and expenses (including, without limitation, attorneys' fees).

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

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

(j) Binding Effect. This Agreement is binding upon and shall inure to the benefit of the parties hereto, their respective executors, administrators, successors, personal representatives, heirs and assigns permitted under subsection 13(i) above.

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

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

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

14. Arbitration. Any claim, dispute or controversy arising under this Agreement will be subject to arbitration, and before commencing any court action, the parties agree that they will arbitrate all such claims, disputes and controversies and such arbitration will occur in Atlanta, Georgia according to the National Rules for the Resolution of Employment Disputes of the American Arbitration Association and the Federal Arbitration Act, 9 U.S.C. §1, *et seq.* The arbitrators will be authorized to award both liquidated and actual damages as well as injunctive relief, but no punitive damages. The arbitrator's award will be binding and conclusive upon the parties, subject to 9 U.S.C. §10. Each party has the right to have the award made the judgment of a court of competent jurisdiction.

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

DELTA APPAREL, INC.

By: /s/ Robert W. Humphreys

Name: Robert W. Humphreys

Title: Chief Executive Officer

“Executive”

By: /s/ Justin M. Grow

Name: Justin M. Grow

Title: General Counsel and Corporate Secretary

EXHIBIT 21

SUBSIDIARIES OF DELTA APPAREL, INC.

Listed below are the subsidiaries of Delta Apparel, Inc.:

- (1) M. J. Soffe, LLC, a North Carolina limited liability company.
- (2) Junkfood Clothing Company, a Georgia corporation.
- (3) Salt Life, LLC, a Georgia limited liability company.
- (4) Art Gun, LLC, a Georgia limited liability company.
- (5) Delta Apparel Honduras, S.A., a Honduran sociedad anónima.
- (6) Delta Campeche, S.A. de C.V., a Mexican sociedad anónima de capital variable.
- (7) Delta Cortes, S.A., a Honduran sociedad anónima.
- (8) Campeche Sportswear, S. de R.L. de C.V., a Mexican sociedad de responsabilidad limitada de capital variable.
- (9) Textiles La Paz, LLC, a North Carolina limited liability company.
- (10) Ceiba Textiles, S. de R.L., a Honduran sociedad de responsabilidad limitada.
- (11) Atled Holding Company Honduras, S. de R.L., a Honduran sociedad de responsabilidad limitada.
- (12) La Paz Honduras, S. de R.L., a Honduran sociedad de responsabilidad limitada.

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-61190) pertaining to the Delta Apparel, Inc. 2000 Stock Option Plan and Delta Apparel, Inc. Incentive Stock Award Plan, and

(2) Registration Statement (Form S-8 No. 333-172018) pertaining to the Delta Apparel, Inc. 2010 Stock Plan

of our reports dated November 29, 2016, with respect to the consolidated financial statements and schedule of Delta Apparel, Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Delta Apparel, Inc. and subsidiaries, included in this Annual Report (Form 10-K) of Delta Apparel, Inc. and subsidiaries for the year ended October 1, 2016.

/s/ Ernst & Young LLP

Atlanta, Georgia
November 29, 2016

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Delta Apparel, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-61190 and No. 333-172018) on Form S-8 and (No. 333-214783) on Form S-3 of Delta Apparel, Inc. of our report dated December 15, 2015, except as to the last paragraph of Note 2(a), Note 2(aa) and Note 14, as to which the date is November 29, 2016, with respect to the consolidated balance sheet of Delta Apparel, Inc. and subsidiaries as of October 3, 2015, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows, for each of the years in the two-year period ended October 3, 2015, and the related financial statement schedule, which report appears in the October 1, 2016 annual report on Form 10-K of Delta Apparel, Inc..

/s/ KPMG LLP

Greenville, South Carolina
November 29, 2016

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 Annual Report on Form 10-K 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 the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying 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 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: November 29, 2016

/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 Annual Report on Form 10-K 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 the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying 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 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: November 29, 2016

/s/ Deborah H. Merrill

Chief Financial Officer and President, Delta Basics

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 Annual Report on Form 10-K for the fiscal year ended October 1, 2016, 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: November 29, 2016

/s/ Robert W. Humphreys

Robert W. Humphreys

Chairman and Chief Executive Officer

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

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 Annual Report on Form 10-K for the fiscal year ended October 1, 2016, 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: November 29, 2016

/s/ Deborah H. Merrill

Deborah H. Merrill

Chief Financial Officer and President, Delta Basics

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